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# China Report

ECONOMIC AFFAIRS

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3 FEBRUARY 1987

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## NATIONAL AFFAIRS, POLICY

### DISCUSSION OF PRICE REFORM MODELS

Beijing JINGJIXUE DONGTAI [TRENDS IN ECONOMICS] in Chinese No 6, 5 Jun 86  
pp 2-7

[Article by Dai Yuan Chen [2071 0954 2525]: "Further Exploration of Price System Target Models"]

[Text] The price system includes two aspects: one is the division of price-control authority, and the other is the adoption of forms of prices. Selection of price-system target models requires not only an analysis of the pros and cons of how price-control authority is divided and which price forms are adopted, it also requires consideration of which type of system is most suitable given actual, objective needs. To this end, we shall proceed with a further exploration of this topic.

#### Price-System Target Models Determined by Economic-System Target Models

The target model of price-system reform is an important component part of the target model of economic-system reform. Selection of the target model for the price system is basically determined by the conceptualization of the target model of the economic system.

The reform of the economic system now being carried out in China is intended to change the product-economy model in which the state-run economy is treated as one large factory, to establish a planned commodity-economy model, and gradually to create a new, highly effective economic system capable of promoting technological progress and the development of self-transformation. This major prerequisite is clear. But it should be pointed out that a planned commodity economy is a rather broad, elastic concept about which, given the same proposition, people may have differing specific understandings and the specific substance of which may differ.

However, putting forward the proposition of a planned commodity economy does after all sketch the broad outline of the target model of China's economic system. On the one hand, our reform of the economic system is a reform of an economic system under conditions of a planned, socialist economy, and reform certainly does not imply abandoning the planned economy. Therefore, in a socialist economy it is always necessary to have centralized price control and planned prices.



Furthermore, reform is ultimately an attack on the original, highly centralized economic system, and it is ultimately necessary to do away with the long-standing practice of shackling the productive forces of the original economic system. Different people may have one concept or another of the ultimate goals of reform of the economic system, but on one point they agree, and that is that market mechanisms should be introduced into the planned, socialist economy to convert the cyclic process of a product economy dominated by the supply system, with its lack of concern for social demands, lack of regard for efficiency, and failure to figure profit and loss, into an economic cycle carried out according to the requirements of a commodity economy with a concern for social demands, close attention to efficiency, and consideration of profit and loss. Therefore, in terms of the price system, the method of dividing authority that placed price-setting authority in the hands of the state, with prices being set centrally primarily by state pricing agencies, should be changed, and the price-setting authority of local governments, departments, and enterprises should be expanded. Thus the situation in which planned, fixed prices are the principal form of prices should be changed, and the range of application of marginal floating prices and free prices should be expanded. If this point is not seen, then the necessity and gradually progressive nature of the reform cannot be seen.

It should also be pointed out that prices merely furnish a signal to create the conditions for adjustment of economic movements through market mechanisms. As the commodity economy in China was originally very undeveloped, market mechanisms had a very constricted range and degree of effects on economic activity; the effects of various noneconomic and supraeconomic factors were thus relatively greater, so that exploiting the effects of market mechanisms via reform is a formidable process. With the many artificial fetters on economic movements still not having been undone, with no microeconomic foundation yet having been laid to exploit the effects of market mechanisms, with budgetary constraints on enterprise accounting still not having been firmed up, with the various economic levers still being rigid and incapable of being flexibly reflected in economic movements, with there still being no true competition--under such conditions, the effects that can be achieved by market mechanisms are extremely limited. Some comrades criticize the sudden rise in the prices of some commodities in some areas and at certain times after prices were relaxed, believing that this was an abuse created by free prices using market mechanisms. But the fact is that prices of steel and motor vehicles outside the plans on several occasions in the past reaching three or four times the prices allocated under the plans is very abnormal. This is because buying power in this area was excessive, and because buying and selling outside the plans occur through various irregular channels outside the market, with no mechanisms for competition or automatic coordination. This demonstrates that the greeding ground producing abrupt price hikes and rampant opportunism is undeveloped market mechanisms rather than the use of market mechanisms. These problems arising during the reform process can only be resolved fundamentally by further perfecting the reforms and creating the conditions for being truly able to exploit the usefulness of market mechanisms.

## Selection of a Price System Target Model Should Consider the Need To Put Prices in Order

As reform of the economic system is carried out and enterprises are being given the responsibilities and status of relatively independent producers of commodities, one major obstacle encountered has been the irrationality of the price system, which has affected the normal course of economic activity. But people have different understandings and concepts of how the price system should be put in order, and hence they have different understandings and concepts of how to approach the price system. The first problem encountered is whether prices can be put in order, and the methods and indications for doing so. In the last few years China has made adjustments in the prices of many commodities, most prominently, the procurement prices of agricultural products were raised to improve the inappropriate price ratios between industrial and agricultural products. But in terms of the overall price structure of the component prices, the ratios are still not ideal and are basically out of line. Further ordering is, therefore, still required.

As to what must be done before the price system can be put in order, I believe that this question must be analyzed specifically starting from China's actual situation. The irrationality of China's price system is primarily manifested in the following areas: first, the prices of certain raw materials, fuels, and mining products are too low, and the prices of certain processed industrial products are too high, creating a wide disparity in the profit levels of different sectors and a contradiction between the message from price signals and the requirements of economic development. Second, price differences based on quality have not been developed, with prices for high-grade goods not being raised and those of low-grade goods not being lowered, so that prices are unable to stimulate and promote technological advances or improvements in quality. Third, tariff levels for public utilities, such as transport and postal charges and telecommunication fees, are too low; rents in particular are too low, and this has not helped the reproduction of public utilities. Fourth, the purchase and sale prices of agricultural products are inverted; price subsidies have increased year after year, increasing the state's financial burden. Putting prices in order must focus on using different approaches to deal with different situations. For example, if the excessively low charges for public utilities are to be changed, planned prices must be adjusted; but if quality-based price differences are to be put in proper order, price adjustments by the various pricing departments are not as effective as market mechanisms. Clearly, it is more reasonable to handle different situations with different approaches.

When the price system is being put in order, it will most often happen that people who have different concepts of the function of prices will have different views on how to proceed. Some comrades emphasize that prices have the function of calculating social labor consumed; they believe that if the amount of social labor consumed is correctly reflected, then resources will be correctly distributed, which is the primary requirement for exploiting the lever effect of prices; thus, prices that achieve a certain average profit rate are treated as the primary requirement for putting prices in order. They believe that this is necessary for correct accounting. Other comrades stress that prices are the result of exchange and that they should reflect exchange relationships; the

economic lever effect of prices, including their being able to calculate consumption of social labor and adjust the distribution of national income, derives from this basis. As changes occur in the conditions of exchange, it is not necessarily best for the rate of profit on a certain commodity to be an average rate; it may be higher or lower than the average. However, the profit level should give expression to the requirements of the law of value; there should be no occurrence of counteradjustments, with goods in excessive supply having high prices and large profits and goods in short supply having low prices and small profits, or even being sold at a loss. Thus, putting prices in order according to the former view may require that planned, fixed prices be made the principal form of price before it is possible to have prices reflecting the requirements of an average rate of profit. According to the latter view, price-control authority must be given to lower levels and marginal floating prices and free prices must be made the principal forms of price before market mechanisms can be effectively exploited, so that price changes can more or less reflect value and changes in supply and demand, and so that counteradjustments caused by abnormally high or low prices are eliminated. This is to say that people's specific concepts of how the price system should be put in order, and their understanding of the functions and effects of prices, are not entirely the same. Hence when the target model for the price system is selected there must be a sifting and winnowing in order to meet the anticipated requirements.

As the policy of opening to the outside is implemented and assimilated, a new issue arises regarding the ordering of the price system; the crux of the issue is whether commodity prices in a socialist state should and can be linked to some degree to prices in the international market. The traditional approach is to segregate prices in the domestic market from those in the international market, so that putting the price system in order merely requires taking into consideration changes in domestic production, supply and marketing conditions and economic and technological development. This position holds that there is a distinction between the domestic and international values of commodities. If prices are linked to those in the international market, there is a possibility that high-productivity foreign industrial goods will assault the domestic market and attack low-productivity national industries, and this may also lead to international inflation. With international contacts increasing daily and economic relations becoming ever closer, there may be a need for increasingly centralized price control, and planned, fixed prices may have to be used to sever the relationship between international and domestic prices. However, this traditional approach causes the international price of many commodities to remain frozen for a long time and may often be at odds with the reality of the volatile commodity prices in the international market, thus affecting the development of foreign-oriented economic relationships. The domestic-market prices of certain commodities are excessively out of line with international-market prices, forming a stepped drop and creating irregular flows of some commodities. Some comrades, therefore, believe that domestic and foreign prices should be linked in order to facilitate the use of international price standards to measure domestic productivity; furthermore, this fits in with the growing trend toward an increasing division of labor, with a country's industrial and export structure being deployed and adjusted according to the most economically rational principles. If domestic and foreign prices are to be

linked, it is necessary to change traditional price controls to give domestic prices greater flexibility, so that the necessary adjustments can be made quickly in response to price changes in the international market. Thus there will be different requirements on the price system depending on whether the guiding ideology for foreign and domestic prices is one of linkage, nonlinkage, or semilinkage.

In summary, what types of prices there are in the future, what structure the price system will have, and what its effects will be are goals related to the function of prices and linked to the price system. We cannot limit ourselves to discussing the system but rather must first clearly determine what function prices have and then assign to them the appropriate price-system goals, which will in turn clarify the matter.

#### Reflecting the Need for Combining Stable Prices and Adjusted Prices

Prices must be reformed, yet price reform faces major obstacles; progress is difficult and unsteady. This is because there is a conflict between adjusted prices and stable prices; the relationship between the two must be properly handled to mitigate the obstacles. The question of what the price system should be in order to facilitate achieving both price flexibility and price stability must be carefully considered when a price-system model is selected. This should be carefully considered not only during the process of putting prices in order, but also for the long-term future, in order to conform to popular feeling and the flow of events.

In 1985, China's principal action in the area of price adjustment was the elimination of the distribution and procurement of hogs, and the implementation of purchase and sale prices negotiated according to guidelines. After eliminating state-monopoly purchases of grains, and instituting contractual fixed-quota purchasing and pricing according to the inverse 3:7 ratio, the sale price of rural grain was raised to bring it even with the purchase price. At the same time, short-haul rail transport tariffs were raised and price differences for coal by region and grade were adjusted. In short, no great strides were taken in the area of price adjustment. However, because two major openings were made in easing price controls, i.e., in agricultural products, except for prices of fixed-quota purchases of grain, oils, cotton, etc., the prices of such nonstaple foods, such as vegetables, aquatic products, lamb and beef, poultry and eggs, etc., were decontrolled. In addition, that portion of the industrial means of production produced in excess of plans was permitted to be put on the market and sold at freely set prices. The result of this decontrol was that economic movements were vitalized and rapid economic growth was stimulated. At the same time, this also caused a considerable rise in prices, with the retail price index for the nation's markets rising by 8.8 percent, and breaking through the double-digit mark in some big cities. This brought a sharp reaction from the masses and produced significant social repercussions.

In terms of surface appearances, the considerable price hike in 1985 was caused by the two openings in price control. However, before 1985, in a good many places, such as Guangzhou, Wuhan, Shijiazhuang, and other cities, the prices of vegetables and certain nonstaple foodstuffs had already been

decontrolled, and prices had already stabilized after passing through a short period of fluctuation, yet they underwent a considerable rise in 1985. Floating prices had previously been implemented for the means of production, such as steel and so on, and the earliest prices had floated downward, whereas in 1985 negotiated prices were three times the list prices. Therefore, to get to the root of the matter, the problem does not lie in decontrolling prices but rather in excessive investment in fixed assets, excessively rapid increases in consumption funds, social demand exceeding social supply, and excessive amounts of currency being put into circulation, causing a loss of control. Thus, many comrades point out that carrying out price reform that goes so far as to reform the entire economic system requires a relaxed environment in which supply is somewhat greater than demand.

Indeed, we are all hoping for a good opportunity to make possible the appearance of a relaxed environment, and we have repeatedly emphasized this point; this would be beneficial in restraining investment fever and premature consumption. But consideration should also be given to all sorts of causes; it is essential to evaluate the possibility of implementing price reform under conditions that are definitely not relaxed. Moreover, given the speed at which it is pursued, investment fever leads to demand exceeding supply, which was precisely the chronic ailment of the original economic system. Only through reform can we promote increased production and the realization of a balance between supply and demand. On the one hand, this requires destroying the corrupt practice of seeking stable prices through price freezes, but on the other hand, during the price-adjustment process every effort should be made to control the extent of price hikes. To do this, in an environment which is, to put it succinctly, not relaxed, better reform opportunities and more suitable reform measures must be selected. Taking an approach of planned adjustment of prices, as opposed to the decontrol approach, makes it easier to control the extent of price hikes; the combination of adjustment and decontrol must be dominated by adjustment. For a certain period of time, centralized price control and planned, fixed prices should not be cut back too much.

The lowest prices in China at present are those for agricultural and mining products, all of which are basic prices; for this reason, their upward adjustment may bring on a whole series of price hikes for a whole series of commodities. Therefore, even though reform of China's price system involves a structural adjustment, it is still capable of causing a rise in overall price levels. It is generally estimated that following a rational adjustment of the price system, overall price levels may rise by about 40 percent. If price-reform steps are taken too quickly, this may cause too fierce a shock and social repercussions. It is, therefore, necessary to proceed by small steps, reforming one aspect each year, turning a big jolt into a small jolt, holding the magnitude of the price adjustment to what enterprises can assimilate and what the masses can bear.

It should also be pointed out that it will be necessary to integrate the demands of adjusted prices and stable prices not only during the process of putting prices in order but also after basic order has been achieved. Our goal is a planned commodity economy; "planned" should include planned control of price movements, i.e., structural price adjustments should be made continuously according to changing conditions, also making it possible to avoid major

price fluctuations that cause social shockwaves. In the same way, therefore, the price system at this time cannot focus exclusively on one particular aspect but should give equal consideration to both.

#### Double-Track Prices Are a Reasonable Component of the Double-Track System in the Process of Transforming the Economic System Model

The most contentious element of the price system in recent years is whether a double-track or multitrack system of different prices should be applied to a given commodity. Many comrades believe that the double-track system has destroyed price uniformity, created chaos in economic movements and caused dual behavior and dual mechanisms in enterprises, with many abuses.

In fact, the double-track price system did not appear suddenly in China; it has been present for a long time. It may be said that free marketing has been used as a supplement ever since the state monopoly over purchase and marketing was applied to the main agricultural products; and ever since central allocation and distribution of the industrial means of production, small enterprises have marketed their own products not included in central distribution, and enterprises subject to central distribution have marketed their own seconds and those products outside of plans, so that there has been interregional cooperation in the industrial means of production. It is only that in the past the proportion going through planned distribution channels was very large, and the proportion of negotiated prices was very small, and the differences in prices between the two were not very great and did not attract attention. What attracts attention in the double-track price system, in terms of agricultural products, is the gradual emergence over the last few years of conflicts among state-monopoly prices, above-quota prices, negotiated prices, and market prices; in terms of the industrial means of production, it is the sharp rise in prices in 1985 for items outside the plans. The excessive gap in prices for items outside the plans has led producers to seek ways to reduce the proportion of goods subject to planned allocation and distribution and expand the proportion of above-quota production they can market themselves; the rate of contract fulfillment has declined everywhere. This situation has been created primarily because of excessive investment in fixed assets and excess purchasing power. The various abuses of the double-track price system are all linked to the excessive disparity between the two types of prices. The focus of the conflict lies in the loss of macroeconomic control and over-inflated demand.

People have leveled various criticisms and blame at the double-track price system, but there are actually only two views on the matter. The first is that it should be replaced with free prices only, and the other is that it should be replaced with planned, fixed prices only. Both of these views are unrealistic. Since the present double-track price system is a component part of the double-track economic system during the process of transforming China's economic system model, it is closely linked to the dual planning system, the dual fixed-asset investment system, the dual goods distribution system, etc., and cannot be replaced by any single type of price system model. Imagine: if we are required to return to planned, fixed prices only, the supply of goods will have to enter the highly centralized and uniform allocation and

distribution channels; otherwise, how can prices be set for the distribution of items outside the plans? If enterprises are required to sell goods at planned, fixed prices only, then their raw materials and fuels will have to be supplied in the same way, at planned, fixed prices only; otherwise, what will enterprises use to carry out their normal production operations? Since the production, supply, and marketing of centrally distributed materials are all linked together, they form a chain with one another. If a certain quantity of steel is required to be produced, a certain supply of coal must be ensured. By the same principle, producing a certain quantity of coal requires that a certain supply of steel be ensured. Thus planned, fixed prices only and allocation and unitary distribution channels necessarily require unitary, planned production. Production and construction are intimately connected. At this time, if fixed-asset investments are still under a double-track system, with one part being state investments included in the plans and the other part being projects outside the plans involving investments raised by local departments and enterprises themselves, then implementation of planned, fixed prices only will imply that investment projects outside the plans will also require that materials be supplied at allocated prices, and this is clearly unrealistic. Unless investments outside the plans are all converted to projects included in the plans, it is impossible to ensure that materials will be supplied at allocated prices.

Then is it possible to replace dual prices with free prices only? It should be pointed out that at present there are many producing and construction units, including the production of light industry and township and town industries, civil construction and many secondary construction projects outside the plans, that are basically following channels outside the plans and engaging in production, supply, and marketing activities at free prices. However, in terms of the economy as a whole, it is precisely because the conditions for instituting free prices alone are not yet present, and because it is still difficult to adjust upward even those planned prices that are too low, that the double-track system of prices came about. It causes those elements outside the plans to be produced and to circulate according to market rules, mobilizing the enthusiasm of producing and operating enterprises and meeting the demands of user units. At the same time, it also causes goods produced and circulating within the plans to be counted and moved at planned prices, ensuring price stability and the stability of national-income distribution patterns. If we now insist on changing the double-track price system to free prices alone, regardless of whether free prices cannot be instituted everywhere, and if the change is too major or too sudden, it will be precisely key enterprises and key construction projects that feel the shock.

Since no other countries have fully implemented a double-track price system, the system may be considered an invention of the process of reforming China's economic system; it is suited to the characteristics of gradual change used to carry out the transformation of China's economic system model and is the manifestation in prices of the double-track system for planning, production, investment, and distribution of materials. In terms of overall thinking, using the double-track price system to achieve transformation of the model is a practical approach geared to actual conditions. It is capable of combining the planned and conscious adjustment of prices with spontaneous adjustment using market mechanisms. Thus, when prices are put in order, it is possible to

mitigate the social repercussions. Planned prices can be left alone; by expanding or cutting back on state allocation and distribution, the relationship between state and enterprise can be adjusted, and then price levels can be adjusted. Progressive adjustments can also be used to bring the two types of prices gradually closer. As to the problems arising during implementation of the double-track price system, especially in 1985, it should be recognized that they lie in the methods used and not in the thinking. In particular, it is because of the excessive disparity between the two types of prices that the various conflicts have arisen; it should be stated that the central issue is the loss of macroeconomic control, and therefore the conflicts should be resolved by strengthening macroeconomic control.

#### Proper Handling of Centralized and Decentralized Price-Control Authority and Proper Mix of Price Forms

From the foregoing analysis, it can be seen that the targets of reform are excessive centralization of price-control authority and the unitary nature of the planned, fixed form of prices. We cannot continue to follow this road. But on the other hand, it is also impossible for China to overdecentralize price-control authority, which is to say to adopt a laissez-faire attitude, and to have only the free form of prices. Of course, in terms of the demand for reform of the economic system and invigorating the microeconomy to vitalize enterprises and give consumers free choice, the rigid price system must be done away with, and the range of applicability of free prices reflecting market mechanisms must be broadened. However, a socialist commodity economy is not an ordinary commodity economy; it is a planned commodity economy. The state cannot completely abandon price controls; state-run businesses must still participate in the formation of prices. In China, expansion of the range of applicability of free prices is ultimately limited and conditional.

Focusing on the inadequacy of planned, fixed prices and free prices, in the last few years China has instituted marginal floating prices. Since the guideline price for marginal floating prices is set by the state, it is the basis on which the price floats; the upper and lower limits of the price floating are also controlled by the state setting float margins. Therefore marginal floating prices are a form of planned price. At the same time, the marginal floating price with the guideline price as its axis can float upward or downward, adapting to the objective requirements of price movement, so that enterprises acting as relatively independent commodity producers have a certain degree of price-setting authority, buyers have a certain degree of consumption-selection authority, and market mechanisms have a stage where they can work. Therefore, in terms of abstract theory, marginal floating prices are a relatively ideal form of price, as well as a relatively ideal way of dividing and combining price-control authority. But in practice, it is also possible for marginal floating prices to always float upward and become planned, fixed prices in disguise; it is also possible for control to be lost on the float margin, so that they become free prices in disguise. This illustrates that there should be certain conditions present for the implementation of marginal floating prices, and that they alone cannot become the target model for the price system.



The various preceding analyses also demonstrate that, given China's actual conditions, the price-control system will turn from a centralized model toward a combined centralized and decentralized model; in terms of forms of prices, under certain circumstances it will be necessary to implement free prices and floating prices, and under other circumstances planned, fixed prices will have to be continued. Therefore, what is the proper way to handle the relationship between centralized and decentralized price-control authority? How can the various forms of prices be properly combined? This will be a subtle skill during the price-reform process. In keeping with the requirements of and progress in reform of the price system, with the need for putting prices in order and exploiting the lever effect of prices, and with the requirement that gradually putting prices in order should also facilitate maintaining basically stable overall price levels, we should proceed to properly handle the division of price-control authority and select the appropriate forms of prices. At the same time, China is still applying different price-control authority and different forms of prices to a single commodity; a commodity allocated and distributed under state plans continues to be under the price-control authority of state pricing agencies or responsible departments, whereas the same commodity marketed by the enterprise itself is under the price-control authority of the enterprise, with either floating or free prices applied. This approach avoids excessive shocks to income distribution patterns caused by price changes; it is suited to the capacity of enterprises and the masses to bear it; and it reduces obstacles in the process of transforming the system model. Thus, not only are we keeping a reasonable mix of price forms for different commodities, we are also keeping a reasonable mix of price forms for a single commodity. How these are to be properly applied in practice according to specific conditions is a subtle art. We shall learn this art as we put a planned commodity economy into operation; we shall become able to utilize market mechanisms while applying control and mastery.

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CSO: 4006/60

## PROVINCIAL AFFAIRS

### GUANGDONG REPORTS GOOD START IN 7TH 5-YEAR PLAN

HK220453 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 22 Dec 86

[Text] According to NANFANG RIBAO, the provincial planning conference, now in session, has revealed that Guangdong has made a fine start in executing the Seventh 5-Year Plan. The national economy has developed steadily. It is estimated that gross domestic product this year will rise by 9.6 percent over last year. Slight declines occurred in production of grain, sugarcane, jute, bluish dogbane, and silk cocoons, but big growth was recorded in output of other industrial crops and of fruit, aquatic products, and animal husbandry.

The province's industrial output value is expected to overfulfill the plan. Output in the second half of the year rose by 12.3 percent, faster than the 9.6 percent recorded in the first half. Trial production of the South China Sea oilfield started this year, and the year's output is expected to exceed 100,000 tons.

The province has achieved a big increase in foreign trade. Total export value is expected to show a rise of 25.2 percent over last year. There are ample commodity supplies in the markets, and the rise in the price index has tended to slow down. Production materials shortages have tended to ease. Total retail sales value shows an increase of 13.6 percent over last year.

The income of the urban and rural residents has increased. The average annual peasant income is expected to show a rise of about 50 yuan over last year. Total worker wages have risen by about 13 percent. Urban and rural savings deposits at the end of November showed an increase of 36.4 percent compared with the end of last year.

The current main problems are: Grain production has fallen for 2 successive years; the increase in electric power is lower than the increase of total industrial and agricultural output value; factories do not have enough work, and this has had an impact on people's livelihood; the industrial product mix does not match the changes in market demands; and there are large stockpiles, which have slowed the turnaround of capital.

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## PROVINCIAL AFFAIRS

### HEILONGJIANG GOVERNOR SPEAKS ON REFORM

SK230651 Harbin HEILONGJIANG RIBAO in Chinese 7 Dec 86 p 1

[Excerpts] At a provincial conference of directors of city and prefectural restructuring of the economic system commission, which concluded on 6 December, Hou Jie, deputy secretary of the provincial party committee and provincial governor, stressed that we should do a good job in controlling the reform situation and carrying out coordinated reforms.

He said: Because reform is a great project of social systems engineering, governments at all levels, and comrades engaged in structural reform should have a concept of "systems." This requires them to pay attention to the relations of reform in a certain field to other things, and the complexity of reform, study the new situations and new problems in reform, and carry out coordinated reforms.

First, it is necessary to pay attention to the relations of reform in a certain field to other things. When the reform of a certain area comes out, it often brings about a series of influences just as the whole body is affected when one hair is pulled. Therefore, before it is started, we should fully study and analyze the chain reactions and affects it may cause to the whole situation, and adopt corresponding measures for following coordinated reforms. The present urban economic structural reform is more complicated than rural reform. The focus of next year's reform should still be placed on invigorating large and medium-sized enterprises. Because this reform is restricted in more areas by the state system and policies, and involves various fields, such as the planning system, the monetary administrative system, and the foreign trade system, we must pay attention to their coordination in the course of the reform.

Second, we should make full mental preparations for the complexity of reform. The reform we are carrying out is unprecedented, and in many areas we have to proceed without a plan because it is impossible to take every field into consideration and prevent any problems before reform. We should not lose confidence in reform because of the problems. However, before a reform is started, we should strive to take as many things into consideration as possible and, in particular, fully estimate possible difficulties and problems, and should not panic or hesitate when problems arise.

Third, we should have the courage to make explorations and experiments for advance. Leading persons at all levels, and cadres engaged in reform should not consider only what measures they will take for the present, or do passive work, such as making some explanations and adapting themselves to the current situation. Instead, they should carry out brave explorations, and try out new things. For instance, the stock system was a very sensitive issue and a forbidden zone in the past. Now enterprises enforcing the stock system are developing. Some comrades ask whether or not it is compatible with Marxist basic theory and the socialist orientation for enterprises to enforce the stock system. Neither Marx nor Engels provided an answer to this question. We can make a reply only through explorations and practice. We must master the developing trend of reform, work in a creative manner, and open up a new situation.

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## PROVINCIAL AFFAIRS

### HUBEI PROMOTES MANAGER RESPONSIBILITY SYSTEM

HK221043 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 21 Dec 86

[Excerpts] The provincial party committee and government recently issued a circular urging party committees and governments at all levels in the province to earnestly implement the three regulations promulgated by the CPC Central Committee and the State Council on industrial enterprises owned by the whole people and to resolutely promote the manager responsibility system in an all round way.

The circular points out: The reform of the leadership system in enterprises has developed healthily in the province over the past 3 years. Most of the 1,100 enterprises that have instituted the manager responsibility system have achieved marked results. Practice proves that changing the manager responsibility system under the leadership of party committees into the manager responsibility system in industrial enterprises owned by the whole people is a practice and exploration to establish a modern leadership system in enterprises with Chinese characteristics on the basis of correctly summing up historical experiences. Party committees at all levels must earnestly carry out ideological and political work so that the cadres and workers can further deepen their understanding of the importance of the manager responsibility system by combining theory and practice, change their traditional ideas, remove worries and apprehension, clarify confused ideas, and actively reform the leadership system of enterprises.

After the institution of the manager responsibility system, party committees of enterprises no longer exercise unified leadership over enterprises and no longer take on production and administration of the enterprises. They must do their best to upgrade their quality and explore new working methods to meet the needs of new tasks.

The circular demands that all localities and departments, with an active and steady approach, make specific arrangements for promoting the manager responsibility system in an all round way so that most enterprises can institute the manager responsibility system in the next year.

All localities and departments must make an overall analysis of the enterprises that have instituted the manager responsibility system and solve problems purposefully. Meanwhile, they must persevere in streamlining administration and delegating powers, take effective measures, and create good external conditions for instituting the manager responsibility system in enterprises.

## PROVINCIAL AFFAIRS

### JILIN GOVERNOR ON NEXT YEAR'S REFORM TASKS

SK230333 Changchun Jilin Provincial Service in Mandarin 2200 GMT 22 Dec 86

[Text] At the provincial planning conference, Governor Gao Dezhan pointed out that the fundamental way to smoothly fulfill next year's economic tasks is to deepen reform and that all fields of work should be focused on expediting the pace of and deepening reform and opening to the outside world.

Comrade Gao Dezhan stressed: In carrying out next year's reform work, we should firmly grasp such links as invigoration, delegation of power, and the contract system, center the work on invigorating enterprises, and emphatically grasp the following six fields of work well:

1. We should deepen enterprise reform and improve enterprises' operational mechanism. The reform measures including the contract, leasing, and stock systems and the transfer of subordinate relationships, should be actively promoted on a trial basis.
2. We should change the government functions, further decentralize power, and adopt specific measures to create good conditions for invigorating enterprises.
3. We should firmly grasp reform of the circulation system, establish and improve the various kinds of market systems of the means of production, funds and technology, labor services, and personnel, display the market role, and regulate the relationships between supply and demands.
4. We should further open the province to the outside world, continue to promote lateral economic cooperation, open the province to foreign countries, and other provinces, cities, and regions, develop assimilation-type economic cooperation, and strive to cooperate with large key enterprises to produce brand-name, quality, and special products and to turn the urban and rural areas into an integral whole.
5. We should invigorate the urban and rural economy and speed up the development of the collective economy. The urban areas should boldly and actively develop the collective and individual economy. The state enterprises should run collective business units. It is necessary to support the development of

the urban and rural collective economy and simultaneously operate five kinds of enterprises, including the township, village, commune, household, and cooperative enterprises.

6. We should share the management responsibility to different levels and strengthen leadership over economic work.

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## PROVINCIAL AFFAIRS

### LIAONING'S QUAN SHUREN ATTENDS MEETING ON REFORM

SK180948 Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 17 Dec 86

[Excerpts] The provincial on-the-spot meeting to exchange experiences in urban economic structural reform concluded in Shenyang today. The meeting called on cadres at various levels, leading cadres in particular, to foster the idea of a commodity economy, enhance the sense of reform and opening of our country to the outside world, and deepen our province's urban economic structural reform.

This meeting, which was held by the provincial party committee and government, was another important one after the provincial study meeting on rural reform and the meeting for provincial organs to discuss ideological guidelines for economic structural reform. The participants heard the introduction of experiences of Shenyang, Dalian, Dandong and Yingkou, and visited some of Shenyang's typical examples advanced in reform. Li Changchun, deputy secretary of the provincial party committee and acting governor, delivered a speech to sum up the meeting. Quan Shuren, secretary of the provincial party committee, also spoke.

The meeting pointed out: As one of the important industrial bases of China, our province shoulders very arduous tasks for accomplishing the socialist four modernizations. Next year is an important year for carrying out reform thoroughly. The guiding ideology for reform of the whole province is to conscientiously implement the guidelines of the 6th Plenary Session of the 12th Party Central Committee and the CPC Central Committee decision on economic structural reform, and carry out the principle of working out an overall design and conducting coordinated reforms in various areas according to established priorities, with the focus on deepening the coordinated reforms at enterprises, which aims at invigorating enterprises, large and medium-sized ones in particular, so that enterprises can have more vitality. At the same time, it is necessary to continue to improve the market regulating mechanism, establish a macroeconomic management system emphasizing indirect control, and coordinate and promote reforms in these three areas so as to ensure and facilitate a sustained, stable, and balanced national economic rating enterprises, achieve a major breakthrough in the reform of management, and make new explorations in the reform of the ownership system. We should conscientiously enforce the three regulations



and popularize the enterprise director or manager responsibility system across the board. We should further implement the State Council's regulation on expanding decisionmaking power and deepen the coordinated reforms at enterprises, large and medium-sized ones in particular. We should greatly develop lateral economic cooperation with the focus on establishing new associations of enterprises. We should enable enterprises to acquire the capacity to accumulate funds for transformation and development, and to gain more momentum for further development. We should expedite the opening of markets of key factors of production and provide favorable market conditions for enterprises to gain vitality. We should facilitate opening of our country to the outside world and provide a vast world for enterprises to enter the international market. With invigorating enterprises as the basis, we should realize the combination of the urban and rural economies at an early date. We should further change the functions of governments to orient their work to serving enterprises.

The meeting held: The situation at home and abroad is developing rapidly, which constitutes pressure. Our province is facing a series of new challenges. The important tasks before leading cadres at various levels throughout the province are to further eliminate the leftist influence and outdated traditional ideas, and to foster new ideas compatible with the development of the socialist commodity economy. The provincial party committee and government urged leading persons to take the lead in enhancing the sense of reform and opening to the outside world, foster the idea that advancement can only be achieved through reform, adhere to the principle of seeking truth from facts, be brave to work in a creative manner, and play a dynamic role in understanding and transforming the world. They should strengthen ideological and political leadership over reform and opening to the outside world and have the ability to turn the leading bodies' thinking on reform and opening to the outside world into conscious acts of the masses of cadres and people. They should lead all organs to participate in all areas in the policymaking for reform, and provide a good social environment, in particular a relaxed political environment, for reform and opening to outside world. Party committees and governments at all levels should place reform high on their agenda, study it frequently, and give guidance to it in a timely manner. Their major leaders should attend to it personally.

The meeting stressed: Success in reform and opening to the outside world next year will play a very important role in basically establishing a socialist economic system with Chinese characteristics, vigor, and vitality during the Seventh 5-Year Plan period or a longer period as called for by the central authorities. The provincial party committee and government urges all localities to conscientiously learn from the advanced experiences of Shenyang, Dalian, Dandong and Yingkou cities, and, with the spirit of creating the new boldly and braving the way forward, lead party members, cadres, and the people throughout the province in plunging into the practice of next year's reform with one heart and one mind, and with full confidence, and in striving to open up a new situation of reform and opening to the outside world in our province.

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## PROVINCIAL AFFAIRS

### LIAONING SECRETARY ON ENTREPRENEUR CONTINGENTS

SK190820 Shenyang Liaoning Provincial Service in Mandarin 2200 GMT 18 Dec 86

[Text] It is necessary to foster a great number of entrepreneurs and to form a mammoth force of entrepreneurs who are bold in creating a new situation in the course of reform and opening to the outside world. This was a demand mentioned in a speech by Quan Shuren, secretary of the provincial CPC Committee, at the provincial on-the-spot meeting to exchange experiences in urban economic structural reform, which concluded on 17 December.

Comrade Quan Shuren said: In reform, opening to the outside world, and actively developing the commodity economy, we need a great number of entrepreneurs. At present our entrepreneur contingents are far from mammoth and the general level is far from meeting good standards. They cannot meet the requirements of reform. Therefore, it is necessary to create public opinion and an atmosphere that all persons with lofty ideals vie to become entrepreneurs. He said: (Li Ming), a section chief of the Benxi City CPC Committee, resigned from his official post and went to the grassroots to contract a shop together with (Guan Guangwei) and became a manager. Such a way of doing things is good. Cases like (Li Ming) are few. Many of our party and government cadres as well as engineers and technicians have this ability and quality level. We should urge them to leave their organs, to contract businesses, and to serve as entrepreneurs. Let us see who has the ability to run his business well.

Comrade Quan Shuren said: To achieve this, we should create a good environment for creating and bringing up entrepreneurs and displaying their role, and genuinely implement the economic responsibility system of integrating responsibilities, rights, and benefits among them. If we allow each and every person to issue orders to entrepreneurs, they will be unable to perform their roles properly. This situation must be changed. We should enable entrepreneurs to exercise their powers and to perform their duties in line with the law and should support them.

Quan Shuren said: To enable entrepreneurs to perform their roles, we should also reform their appointment and removal systems. It is necessary to stop practicing the method of simply assigning and dismissing personnel according to orders from higher authorities, implement the method of employing personnel through public notice, selection, and democratic elections, and genuinely enable competent entrepreneurs to come forward. The past systems might also have fostered some entrepreneurs, but could not meet the demand of fostering a great number of entrepreneurs. Meanwhile, we should also enable them to earn incomes corresponding to the value they create, allow them to receive an income which is several times higher than the average income they received from enterprises, and allow them to boldly earn an income they deserve.

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## PROVINCIAL AFFAIRS

### LIAONING OFF TO GOOD START IN NEW 5-YEAR PLAN

OW221357 Beijing XINHUA in English 0837 GMT 22 Dec 86

[Text] Shenyang, December 22 (XINHUA)--Northeast China's Liaoning Province is off to a good start in implementing the Seventh 5-year Plan, with the gross national product expected to go up by 8.2 percent this year over last year, according to provincial officials.

Zhu Jiazhen, deputy governor of the province, said Liaoning will produce industrial goods valued at 86.6 billion yuan (about 23.38 billion U.S. dollars), a 7.1 percent increase over last year.

The province is one of the country's major industrial centers, its industrial production value ranking third in the country last year.

The deputy governor said that this year witnessed a sustained, steady and harmonious development of all sectors of the economy, with light industry developing faster than heavy industry.

The province has been experimenting with share-holding, leasing and bankruptcy of enterprises. It has also tried reforming the economic functions of cities. According to Zhu, markets for production materials, capital and labor are taking shape in its capital city of Shenyang.

The deputy governor said that the province has wrested a good harvest from serious flooding earlier this year, with grain output expected to reach at least 12.5 million tons, a 23 percent increase over last year and output value of township industry and agriculture expected to increase by 8.6 percent.

The province has also made some progress in updating industrial technology, the deputy governor said. During the year, the province spent 3.6 billion yuan retooling existing old factories and more than 100 such projects carried over from 1985 will have been completed by the end of the year.

In addition, the deputy governor said, the province has set up 189 export oriented factories and production bases that could earn 600 million U.S. dollars in foreign exchange a year. The province's export volume this year, including oil and oil products, is expected to reach 3 billion U.S. dollars, 23.5 percent more than in 1985 and total amount of foreign investment and technology used in the year has reached 500 million U.S. dollars.

The income of state-owned factory workers has increased by 19 percent while the average per capita annual income of peasants has increased by 4.8 percent. There have also been improvements in urban housing as six million square meters of housing were completed this year.

The deputy governor disclosed that the province has planned to increase the total industrial and agricultural output value by 6.7 percent next year.

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## PROVINCIAL AFFAIRS

### BRIEFS

SHAANXI LACK OF ENTERPRISE DEMOCRACY--According to Shaanxi GONGREN BAO, the Xian City Federation of Trade Unions has carried out a survey among 15,000 workers in 101 city enterprises, which shows that there are currently many weak links in democratic management by workers. As a result, the powers of the workers' congresses in many enterprises have not been properly firmed up, the workers' status as masters of the house is not fully guaranteed, and there is a certain degree of resistance to implementing the democratic management system. According to an analysis of the survey, the following are the main reasons for weak democratic management in enterprises: 1) The leaders lack consciousness of democracy; 2) the relations between party, government, and trade unions have not been harmonized well, and the status of the trade unions does not match the situation of reform, and 3) the workers' congress system is not on a sound basis and the quality of the delegates is not high. [Text] [Xian Shaanxi Provincial Service in Mandarin 0200 GMT 23 Dec 86] /8309

CSO: 4006/255

## FOREIGN TRADE, INVESTMENT

### GU MU SPEAKS ON ASSISTING FOREIGN ENTERPRISES

HK210440 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1557 GMT 19 Dec 86

[Text] Dongguan, 19 Dec (ZHONGGUO XINWEN SHE)--Before concluding his inspection tour of Guangdong, State Councillor Gu Mu made the following remarks in Dongguan today: "We must implement the 22-article Provisions of the State Council for the Encouragement of Foreign Investment and give greater decisionmaking power to foreign enterprises."

Gu Mu said that a "big climate" characterized by political stability and vast territory and abundant resources is not enough. All localities should attach great importance to the matter, set up proper management organs, and develop basic facilities to help foreign businessmen solve their difficulties and to create a "small climate" to encourage foreign investment. The central idea of the 22-article provisions of the State Council is to create this "small climate" and give full play to the advanced technology and modern management experience of the foreign-invested enterprises.

Gu Mu visited the Shengyifu Copper Company Limited, a Sino-foreign joint venture, in Dongguan. The company made a total investment of \$8.75 million for imported advanced equipment and technology of the 1980's from the United States. There are now 120 Sino-foreign ventures and cooperative enterprises in Dongguan. The volume of investment agreed upon totals over \$170 million. Gu Mu gasped with admiration: "This amount is equivalent to that of a whole province in the interior."

It is necessary to respect the authority of operations and management, and particularly of personnel, of foreign enterprises, said Gu Mu. He continued: Now there are very few foreign businessmen complaining about the 22-article provisions. The main question is that they doubt whether the policies can be fulfilled. We must conduct a great deal of work to properly implement the policies. Gu Mu urged the responsible persons of the Guangdong Province and Dongguan City to seriously deal with the question.

While visiting the rural areas in Dongguan, Gu Mu asked the peasants who became rich: "Do you think the current policies will change?" A peasant

replied: "No, they will not change. If a change is necessary, the policies will change for the better." Gu Mu said: "We must get rich. I wish you good fortune."

Accompanied by Secretary Lin Ruo of the Guangdong Provincial CPC Committee and Mayor Li Hao of Shenzhen, Gu Mu made an inspection tour of Dongguan. Prior to that, Gu Mu met in Guangzhou with Dr Wu Qingrui from Singapore, an economic advisor to the development of China's coastal areas. Gu Mu also inspected the Guangzhou economic and technological development zone and held talks with foreign businessmen.

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## FOREIGN TRADE, INVESTMENT

### KAIFANG ON FOREIGN EXCHANGE RATE RISKS

HK160613 Guangzhou KAIFANG in Chinese No 11, 8 Nov 86 pp 8-10

[Article by Jin Huaqing (6855 5478 4987) and Qiu Xiaohui (6726 2556 6540):  
"Foreign Exchange Rate Risks--the Severe Test Facing Us"]

[Text] I.

Since March of 1985, there has been a drastic falling curve line on the U.S. dollar exchange rate trend chart. From 1 March of 1985 to 15 August of 1986, the percentages of the falling exchange rates of the U.S. dollar to the British pound sterling, the West German mark, and the Japanese yen were 28 percent, 38.6 percent, and 40.9 percent respectively. As a result of this process, our country's enterprises engaged in economic relations and trades frequently suffered losses in terms of foreign exchange rates. We would like to cite some examples below.

--At the Food Processing Machine and Equipment Exposition held in the last 10 days of June 1985, Company A signed a contract with a foreign firm on buying eight sets of food processing machines, of which six had to be paid in the Japanese yen within 120 days following the signing date of the contract. Converted into the U.S. dollar according to the exchange rate on the day the contract was signed, the payment for the machines amounted to \$190,000 and by October it had risen to \$223,300. At that time, the company believed in a certain overseas judgment that the exchange rate of the Japanese yen to the U.S. dollar had been at the bottom and would pick up soon. Moreover, it would take time for the company to ask for more exchange rate quotas from the authorities concerned. Therefore, the company asked its foreign counterpart for postponement of payment. Unexpectedly, the U.S. dollar exchange rates continued to fall by a wide margin (in fact, at that time, the finance ministers of five Western countries held a conference to take joint concerted efforts to lower U.S. dollar exchange rates) and by February of this year, the company's payment for the machines in Japanese yen had reached \$269,100 or an increase of nearly \$80,000 over the original payment.

--Factory B imported a set of equipment whose price was quoted in the Japanese yen and payment was to be cleared in July of 1985. Converted into the U.S. dollar according to the then dollar exchange rate, the



payment totaled \$1.7 million. However, due to the reduced scope of loans by the state, the bank concerned failed to offer loans to the factory in good time, causing a 3-month payment delay, during which the exchange rate of the Japanese yen to the U.S. dollar rose by a wide margin. Consequently, the factory suffered a loss of over \$200,000.

--At the end of 1984, Unit C imported from a Japanese firm a super speed rotary printing-machine complete with its accessory equipment in the form of leasing, with a leasing period of 3 years. The rent was to be paid in six equal installments. The leasing fees, converted at the then foreign exchange rate, amounted to \$3.12 million. The first payment was only \$520,000 but when the unit made its second payment, it had to pay, for the same amount of the yen, \$218,000 more than the previous one because of the devaluation of the dollar against the yen.

--Factory D signed a contract with a Japanese firm in June 1985 on importing equipment worth 32 billion Japanese yen. When it paid the deposit of 2.1 billion yen in April of 1986, it suffered a loss of more than \$3.8 million because of the changed exchange rates. According to the then exchange rate, if the remaining sum of money for the equipment is to be paid, the factory will have to lose some \$54.83 million in terms of foreign exchange rates. When placing the deposit, the people concerned were aware of the foreign exchange rate risks and to avoid greater losses, they visited the department concerned to inquire about foreign exchange rate trends and possible countermeasures. If the departments concerned had had a basically correct forecast of the trends of foreign exchange rates and make some foreign currency adjustments, the factory could have avoided further losses. But no such things happened and the factory helplessly saw its losses increasing. By 15 August of this year, converted according to the day's foreign exchange rate, the factory suffered a loss of \$73.61 million besides the paid deposit or an increase of \$18.78 million over the figure when the deposit was placed.

We can cite even more instances of this kind but these alone show the seriousness of this problem. Let us have an overall look at these figures: According to rough calculations, from January of 1985 to March of 1986, in its foreign payments settled in Japanese yen alone, our country had to pay more than \$910 million due to the devaluation of the dollar against the yen. This is equivalent to 28 percent of the transactions of the Guangzhou Spring Export Commodities Fair in 1986. This being the case, we have to be serious in finding out the reasons behind the problem.

## II.

In fact, it is not difficult to find out the reasons.

First, for quite some time we have used only the U.S. dollar as the main foreign currency. Whether in enterprise foreign exchange sharing, bank loans in foreign exchange (with the exception of loans in specific foreign currencies) or in foreign exchange allotments by planning commissions for import projects, these transactions have been based on the exclusive use

of the U.S. dollar, and thus, a form of U.S. dollar quotas is adopted. This, in effect, means putting all our eggs in one basket. Since the drastic fall of the U.S. dollar exchange rates in March of last year, the basket also fell down. This is where the reason for the problem lies but it is not the whole story. Our mistake also lies in our failure to have a clear understanding of the emergence of the foreign exchange rate risks and their impact on our economy and to promptly adopt appropriate measures when such risks occurred.

Second, so far a considerable number of enterprise managerial personnel and personnel engaged in foreign trade still have little knowledge of international financial affairs and even not had any concept of foreign exchange risks. Our negotiators still do not have a concept of soft and hard currencies when negotiating on projects. For example, at a negotiation on import of projects, the two sides signed an agreement and decided to use the U.S. dollar as the vehicle for payment. Several days later, the foreign side asked to use the Japanese yen in place of that of the dollar. Not knowing the motives of their counterpart, the negotiators of our side unexpectedly gave their endorsement. As a result, our side suffered a great loss in terms of foreign exchange rates and only then did they come to realize what their motives were. Again for example, if we compare 1984 with 1985 and 1985 with the first quarter of this year, we can see that of the foreign exchange settled through the Guangzhou and Zhuhai branches, the payment for imports using the dollar remarkably decreased while the earning from exports in the dollar remarkably increased. Moreover, during this period the value of U.S. dollar was in the decline. Again for another example, when opening letters of credit, not a few enterprises thought things would come to an end when they had handed in their deposits in the U.S. dollar to the banks and never cared about the changes in foreign exchange rates during the opening of the letters and the payment of foreign exchange. When they wanted to pay the required amount of foreign exchange and the banks informed them to pay more foreign exchange as a result of the changed foreign exchange rates, they felt extremely puzzled.

Third, our exchange rate forecast and international financial information work cannot yet meet the needs of avoiding the risks of exchange rate. So far, we do not have a single exchange rate forecast organization in the country that can undertake the responsibility. Although the branches of various banks at the provincial level have set up information departments, they exist in name only. Instead of forecasting the exchange rates, they played the role of merely releasing data. This is the essential reason why our economic and trade enterprises were absolutely not on guard during the steep fall of the U.S. dollar. The abovementioned companies A and D attempted to follow the trend of exchange rates. However, they had nowhere to consult and could only make guesses based on the fragmentary material they had on hand.

Fourth, it is impossible for enterprises to adopt any financial means to avoid the risks of exchange rate within the scope of the available foreign exchange business. Under the current foreign exchange management

system, the use of foreign exchange by enterprises is only expressed in U.S. dollars which cannot be converted into other currency. This is also the case within the scope of the available foreign exchange business and enterprises actually have no chance at all to exchange their currency from one to the other. At present, the international financial market offers various forms of services to maintain foreign exchange such as spot exchange, forward exchange, option, swap, and exchange rate insurance. In China, however, the headquarters of the Bank of China and its branches in Tianjin, Lanzhou, Dalian, and Shenzhen are the only institutions that offer forward exchange services to enterprises. As a result, even if enterprise management personnel and responsible persons of the economic and trade departments are aware of the exchange rate risks, it would be of no avail.

### III.

In view of the above circumstances, we should promptly adopt the following countermeasures.

First, it is necessary to enhance the understanding of exchange rate risks of foreign trade and enterprise management personnel. On the one hand, we should increase their knowledge of international finance, and on the other hand, it is necessary to publicize and sum up the work concerning exchange rate risks. As the losses caused by exchange rate risks are dispersed among enterprises, it will be impossible for people to understand the seriousness of exchange rate risks if we fail to sum up our work in an all-round way. During the Sino-British talks on the question of Hong Kong, China incurred serious losses in its trade with Hong Kong due to a slump in the Hong Kong dollar. However, the losses were not turned into a useful lesson because we did not sum up our work and experience after the matter. Following the losses incurred due to the slump in the U.S. dollar exchange rate, we should at least enable our foreign economic and trade personnel to understand the seriousness of exchange rate risks. Only on this premise can we speak of avoiding and transferring the exchange rate risks.

Second, it is necessary to earnestly strengthen the work of exchange rate forecast and information transmission. We should provide the international financial information institutions with competent personnel and equipment and exploit the sources of information so that they can give full play to their role in forecasting the exchange rates and international financial quotations. Proceeding from the urgent need of avoiding and transferring the exchange rate risks, the following method can be taken into account: The headquarters of the Bank of China setting up an exchange rate forecast work group which will be responsible for regularly transmitting the results of its forecast to the economic and trade departments and its branches at lower levels. Consequently, we can change to a great extent the situation of foreign trade enterprises being totally ignorant of the trend of exchange rates. Its role cannot be replaced by the fragmentary articles on exchange rate forecast published in different kinds of newspapers.

Third, according to the needs of avoiding and transferring the exchange rate risks, it is necessary to improve the current foreign exchange management method. When the floating exchange rate is practiced, the value of any currency may increase or decrease. For this reason, we should not convert our foreign exchange into one kind of currency only. Regarding the foreign exchange approved by the Planning Commission and retained by enterprises, we should gradually increase the variety of currency and enable the Bank of China to use five major kinds of currency or even more in granting loans. This move will enable enterprises to retain funds and apply for loans in light of the currency they plan to use and also give enterprises an opportunity to choose the currency to avoid exchange rate risks.

Fourth, to help enterprises avoid and transfer exchange rate risks, the Bank of China should gradually offer various kinds of services to maintain the value of foreign exchange. This is the core of our countermeasure. The purpose of increasing the understanding of exchange rate risks of foreign economic personnel and strengthening exchange rate forecast and international financial information work is to smoothly carry out the business to maintain the value of foreign exchange. Only by gradually promoting various kinds of businesses to maintain the value of foreign exchange can we thoroughly change our unfavorable situation in exchange rate risks. At present, we should particularly develop forward exchange business. The branches at provincial level which have clients in this field should strive to carry out such business within the near future.

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CSO: 4006/243

## FOREIGN TRADE, INVESTMENT

### WORLD ECONOMIC SITUATION, SINO-JAPANESE TRADE EXAMINED

Guangzhou KAIFANG [OPEN POLICY] in Chinese No 8, 8 Aug 86 p 29

[(Japan) Article by Takata Hidehiko [7559 3944 2867 1750], head of the information office, Nissho Iwai Co., Ltd., summarizing a report on his visit to Tianjin at the end of April]

[Excerpt] As for Sino-Japanese trade, the trade imbalance is currently the main problem. For 1985, China's trade deficit with Japan reached \$5.22 billion. The United States is the main recipient of Japanese exports, and China is the second. As for imports, China is only the sixth leading exporter to Japan and these imports are mostly primary products. In the previous period, China imported from Japan a large quantity of electromechanical products and means of transport which resulted in a huge trade deficit. Despite strict control placed on imports of electromechanical products, automobiles, and other products this year, the trade deficit between China and Japan again rose to more than \$800 million in January and February because there was little change in the structure and quantity of China's exports to Japan. Added to Japan's 6.6-percent cutback in oil exports from China, the trade imbalance between China and Japan still remains outstanding. There are two ways to balance Sino-Japanese trade: The first is to negatively create balance, that is to greatly reduce imports from Japan, and the second is to create a positive balance, that is, on the one hand, to conduct suitable control over Japanese imports and, on the other hand, to strive to promote exports to Japan, and thereby fundamentally change the present situation of imbalance. So, in light of the present circumstances in which there can be no major change in the structure of exports to Japan, how can exports to Japan be increased?

Japan is a country with a strong dependency upon other countries. The import of some products represents a very large proportion of domestic consumption, but the import of China's commodities only represents a small amount of Japanese imports for those commodities. Below is a chart showing the proportion of Japanese imports to domestic consumption for certain commodities and the proportion of total Japanese imports to Japanese imports from China for those commodities.

Product	% of domestic consumption imported	% imported from China
Corn	100	1.4
Cotton	100	3.9
Wool	100	0.1
Soybeans	95	7.2
Salt	81.5	8.9
Fresh bananas	100	0
Copper	95.3	0

The above chart shows that even though China's electromechanical products cannot easily enter the Japanese market as of yet, some primary products have great potential in Japan. The present major problem is that the quality, specifications, and delivery periods of some products cannot completely meet the requirements of the Japanese market. A serious effort must be made to resolve this.

Due to Japan's huge favorable foreign trade balance and pressure being exerted from all sides, government and nongovernmental delegations are exploring how to resolve the trade imbalance. Japan has already lowered the duties for imports from China of chestnuts, honey, and egg products. The present large appreciation in value of the Japanese yen is sure to strengthen the competitiveness of Chinese goods. China should take advantage of this opportunity by conscientiously managing exports to Japan, initiating various kinds of flexible trade methods, strengthening the position of traditional export products, striving to open markets for new products, improving the quality of products, and guaranteeing delivery dates. If Chinese and Japanese government and nongovernmental organizations work together, there is still a good chance for China's exports to Japan to reach \$7 billion this year.

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CSO: 4006/52

## FOREIGN TRADE, INVESTMENT

### SWEDEN PROMISES \$270 MILLION IN LOANS

Beijing GUOJI SHANGBAO in Chinese 22 Sep 86 p 1

[Article by our reporter Liang Ruihua [4731 3843 7520]]

[Text] It has been learned from the first round of new Sino-Swedish financial cooperation talks just ended in the first part of September that Sweden will continue to expand both its ample line of favorable credit to China and its monetary subsidies under the technical cooperation program.

During the talks, Sweden promised the release of nearly \$100 million of preferential credit for four projects including a complete line of paper pulp equipment for Qingzhou, Fujian and a car radiator production line in Shenyang in addition to also partially subsidizing research for the Sanxia (Three Gorges) shiplock, Y-12 trial flights, the Jiamusi paper factory energy-savings research, and training on high-voltage direct-power transmission technology. On 8 September, a summary of the talks was formally signed in Beijing by the foreign aid administration bureau of the Ministry of Foreign Economic Relations and Trade and the Swedish International Technical Economic Cooperation Office (BITS).

For nearly 3 years, financial and technical cooperation between China and Sweden has steadily been gaining momentum. Currently, preferential credit from Sweden is being used to implement 18 (among which 4 have already gone into operation) projects, such as program controllable telephones, vegetable oil refining, fruit juice processing, etc. The credit total is \$70 million, which does not include promises of aid for 14 projects including the manufacture of container vehicles. During the opening of talks on technology and business, it was estimated that a credit of \$100 million will be necessary. In the area of technical cooperation, 20 projects, including coal slurry technology, the Sanxia shiplock design, milk industry training and product development, ocean and offshore oil environment projects, have already received the Swedish Government's financial aid. In addition, more than 19,000 Chinese have participated in many technical training classes in various fields sponsored by Sweden.

The conditions of Sweden's preferential credit are: no interest and repayment of the loan within 6 years after completion of projects.

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CSO: 4006/52

## FOREIGN TRADE, INVESTMENT

### OCTOBER MONTHLY TRADE DEFICIT LOWEST IN 2 YEARS

HK231059 Beijing CHINA DAILY (BUSINESS WEEKLY supplement) in English 17 Dec 86  
p 1

[By staff reporter]

[Text] China's monthly trade deficit dropped to the lowest point in two years in October as the nation strengthened export efforts and cut imports, according to the State Statistical Bureau.

The reduced deficit was not achieved by cutting the total volume of trade, the figures showed. Total trade in October was 6 per cent up from the same month last year.

Exports in October were \$3.01 billion, 17.1 per cent up from the same month last year; imports dropped by 2.3 per cent to stand at \$3.37 billion, so the deficit was \$360 million.

Sources from the Ministry of Foreign Economic Relations and Trade said China did not want to reduce the deficit through reducing imports, nor did it seek absolute bilateral trade balance. China wanted to achieve an "active trade balance" by promoting exports to industrial countries.

Hong Kong and Macao remained the biggest trading partner with the mainland. China exported \$890 million to the area, up 29 percent, while importing \$530 million from it, up 51.4 per cent.

Exports to Japan were \$360 million, down 14.3 per cent, while imports from there stood at \$980 million, down 10.9 percent.

Exports to the United States were \$200 million, the same as in October last year, while imports from there were \$270 million, down 44 percent.

Exports to the European Economic Community were \$510 million, up 155 per cent, while imports from there were \$590 million, up 7.3 per cent.



Trade with Canada dropped by half in October. Exports were \$10 million, down 50 per cent, while imports from it stood at \$60 million, down 45.5 per cent.

Imports from the Soviet Union increased by 50 percent to \$180 million, while exports to it fell 6.7 per cent to \$140 million.

Commodity exports registered an across-the-board increase in October except for petroleum, which dropped by 192 per cent to stand at 2.69 million tons. Pigmeat exports dropped by 9.6 per cent, too.

Sources from the Foreign Economic Relations and Trade Ministry said that oil exports, which used to account for a quarter of the country's export income, will earn \$3 billion less than last year as a result of both the drop of oil prices in the world market and China's reduced exports.

In October, China exported 15,595 tons of aquatic products, up 71 per cent; rice, 102,000 tons, up 34.2 per cent; vegetables, 63,162 tons, up 29.6 per cent; canned food, 46,000 tons, up 17.9 per cent; peanuts, 9,212 tons, up 230 per cent; tea, 17,000 tons, up 21.4 per cent; rabbit fur, 403 tons, up 14 per cent; medicinal herbs, 7,967 tons, up 55.6 per cent; coal, 815,000 tons, up 9.7 per cent; cotton yarn, 17,543 tons, up 2.1 per cent; clothing, \$196.6 million, up 35.7 per cent.

TV sets, wheat, and logs led the drop of imports in October.

China imported 202,000 tons of wheat, down 60.7 percent; sugar, 178,000, up 29.9 per cent; logs, 417,000 cubic metres, down 48 percent; iron ore, 899,000 tons, up 39.8 per cent; fertilizer, 498,000 tons, up 0.2 per cent; rolled steel, 1.64 million tons, down 3 per cent; TV sets, 75,000, down 85.1 per cent; wrist watches, 317,000, up 33.2 per cent.

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CSO: 4020/80

## FOREIGN TRADE, INVESTMENT

### 'STABILITY, UNITY' LEADS TO SMALLER TRADE DEFICIT

OW292149 Beijing XINHUA in English 1555 GMT 29 Dec 86

["China Trims Foreign Trade Deficit"--XINHUA headline]

Text] Beijing, December 29 (XINHUA)--China showed a foreign trade deficit of 2.13 billion U.S. dollars in the first 11 months of this year, according to the Ministry of Foreign Economic Relations and Trade.

"This figure is 3.7 billion U.S. dollars less than during the same period in 1985," a ministry official said, adding during the period, China's exports rose 5.8 percent to 24.4 billion U.S. dollars, while imports dropped 8.2 percent to 26.5 billion.

"The country saw big increases in the export of textiles, light industrial goods, native produce, animal by-products and coal," the official said, "but owing to the drop in oil prices on the world market, China is expected to earn three billion U.S. dollars less in hard currency this year over last."

The January-November period also saw substantial increases in imports of heavy equipment, new technology, machinery and technical instruments, and sharp decreases in imports of copper, aluminium, chemical fertilizers, pesticides, granulated sugar, motor vehicles and household electrical appliances.

"During the same period exports to Hong Kong and Macao soared 43.1 percent to 6.58 billion U.S. dollars," the official said, adding exports to China's major markets of Western Europe, Oceania, the United States, the Soviet Union and Eastern Europe all went up.

Mentioning the country's 1987 foreign trade prospects, the official predicted a growth in exports, because China "now enjoys a situation of stability and unity," and its industrial and agricultural production has "risen steadily" over the past few years.

"In the future China will arrange its imports in line with its payment capabilities and construction needs," he added.

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CSO: 4020/80

## FOREIGN TRADE, INVESTMENT

### LEGISLATION ON FOREIGN ENTERPRISES EXAMINED

Shanghai SHEHUI JINGJI [SOCIAL SCIENCES] in Chinese No 9, 15 Sep 86 pp 34-37

[Article by Jiang Enci [5592 1869 1964] of the Legal Research Institute of the Shanghai Social Sciences Institute: "Some Theoretical Problems Regarding Foreign Enterprise Legislation"]

[Excerpts] The fourth session of the Sixth National People's Congress passed the "Foreign Enterprise Law of the People's Republic of China." This is another important piece of legislation promulgated by China following on the "Chinese-Foreign Joint-Venture Law." "Foreign enterprises" refers to enterprises whose capital is entirely owned by foreign investors and that are independently operated and managed by the foreign investors. The Foreign Enterprise Law provides a legal basis for running foreign enterprises throughout the country and lays a foundation for writing and perfecting further legislation regarding these enterprises. The present article offers a few simple views on several theoretical problems concerning legislation on foreign enterprises.

#### I. The Theoretical Basis For Allowing Foreign Enterprises To Be Set Up In China

As China implements a policy of opening to the outside world and bringing in foreign capital, we are first concerned with developing Chinese-foreign joint ventures and Chinese-foreign cooperative ventures, but at the same time we attach special importance to foreign enterprises. This is because, first, foreign enterprises have the characteristics listed above, and since China's funds and staffing are limited it cannot in all cases use the Chinese-foreign joint or cooperative approach; second, selection of the form of international economic cooperation must respect the respective interests and requirements of the cooperating parties. We must start from our own country's targets for economic growth while at the same time respecting traditional international practices, taking into account the demands and desires of foreign investors. Because of varying conditions such as the investors' goals and psychology, funds and technology, they may not all wish to accept joint or cooperative ventures. For example, several years ago one American company wanted to invest in China and set up a plant, but 4 years passed before discussions led to an agreement, after many twists, turns, and wavering. The point of contention was the form of cooperation. The American side insisted on

independent investment and operation, whereas the Chinese side urged a joint venture. Ultimately, however, the Chinese side respected the American side's wishes and agreed to the operation of a foreign enterprise. Finally, international investment always involves a mutual relationship. At present, we are, on the one hand, welcoming foreign companies investing in China; on the other, Chinese companies are now spanning the borders and establishing subsidiaries abroad. In keeping with the principle of reciprocity in international relationships, when we invest in and operate an enterprise abroad, a condition for this is often that we must allow the other side to set up a foreign enterprise in China. For example, a Chinese company may intend to set up a branch company in Italy, and the other side may express its willingness, but it sets as a precondition that it be allowed to operate a restaurant in Beijing.

In summary, because of their own characteristics, foreign enterprises have already become an important form of modern international economic cooperation. Like Chinese-foreign joint and cooperative ventures, they are an indispensable link in the overall chain of China's developing foreign-trade-oriented economic contacts and utilizing foreign funds and technology, and they should receive our full attention and support.

## II. Basic Consideration of Foreign Capital Legislation

How should the substance and structure of foreign enterprise legislation be determined? The author believes that, in formulating the Foreign Enterprise Law and in further rounding out foreign enterprise legislation, primary consideration should be given to the following macroeconomic factors:

1. In its basic principle, foreign enterprise legislation is the same as other foreign capital legislation, yet it has its own characteristics in terms of specific system.

If we look at foreign capital legislation in countries around the world, we find that they have all stipulated several key forms of investment as part of their comprehensive investment codes or foreign capital laws. For example, the foreign capital laws in such countries as Egypt, the Philippines, and Argentina cover enterprises whose capital is entirely supplied by foreigners and also include jointly run enterprises in which foreign investors join with national capital in bearing the risks. Poland is the sole exception; it has separate legislation for jointly run enterprises and foreign enterprises. In 1970, it issued the "Decree on the Establishment in Poland of Jointly Run Enterprises and their Operations." In 1982, the "Law on Foreign Juridical and Natural Persons Engaging in Economic Activities in Small-Scale Enterprises within Poland" was promulgated.

Chinese experience over the years has gradually led to the creation of various forms of introducing foreign capital. In the area of direct investment alone there are Chinese-foreign joint ventures, Chinese-foreign cooperative ventures, foreign enterprises and foreign cooperation in developing natural resources. These different forms are suitable for different types of foreign capital.

China separates its foreign capital legislation: for joint ventures, there is the "Law on Chinese-Foreign Joint Ventures;" for cooperative offshore oil drilling, there are the "Regulations Regarding Foreign Cooperative Recovery of Offshore Petroleum Resources;" for cooperative ventures, we are currently drafting the "Law on Chinese-Foreign Cooperative Ventures;" for foreign enterprises, we have now promulgated the "Law on Foreign Enterprises," and so on. In several basic principles foreign enterprise legislation is the same as legislation regarding other forms of foreign capital utilization. For example, it must carry out the principle of equality and mutual benefit, conform to Chinese law, respect the principle of Chinese sovereignty, implement a system of examination and approval, and so on. At the same time, given the differences in what is being targeted for regulation, each has its own characteristics in terms of legal system. For example, in the areas of raising funds, management and administration, establishing procedures, etc., foreign enterprise legislation differs from other foreign capital legislation.

2. Foreign enterprise legislation covers foreign investment law and also includes corporate law standards.

In many countries, when foreign investors establish foreign enterprises according to foreign capital laws, they must at the same time observe the relevant corporate law stipulations. For example, the "Philippine Foreign Enterprise Management Law" provides that the issue of licenses to foreign enterprises must follow the provisions of corporate law in addition to observing the Foreign Enterprise Management Law. Structurally, China's Foreign Enterprise Law has its own characteristics, combining elements of foreign capital law and corporate law. First, it contains basic principles relating to operating foreign enterprises, their legal status, conditions for their creation, and various standards for encouraging and managing them. In addition, it covers procedures relating to establishing corporations, organizational structure, raising funds, administration and management, corporate dissolution, shareholder rights and obligations, and other principles. It thus combines standards for the administration and management of the foreign enterprise by the regulating agency with standards for the contractual relationship between investors; the clauses are all brought together, clearly spelling out rights, responsibilities, and obligations, thereby facilitating their observance by investors and their oversight and implementation by the relevant agency.

3. Foreign enterprise legislation begins with China's situation and takes into account traditional international practices.

When we formulate foreign-enterprise legislation, we begin first with China's actual situation; foreign enterprises are treated as a supplemental component of the national economy, and it is stipulated that their production and operation are to be guided macroeconomically by state plans and are to fall within the industries in which the state allows the establishment of foreign enterprises and must meet economic and technical requirements. The enterprise must accept the oversight and assistance of the relevant state agency. In keeping with the principle of equality and mutual benefit, it is

to engage in economic contact with other enterprises and economic entities within the country. As regards the enterprise's labor management, it must meet the requirements of economic system reform and cooperate with other economic entities within the country. Furthermore, we must also observe the appropriate international customs and traditional practices. The enterprise's organizational structure, form, establishment and dissolution generally conform to common international provisions regarding foreign corporations. For example, even though the Foreign Enterprise Law did not stipulate enterprise form, the author believes that a foreign enterprise may be a limited company or a limited share company; foreign enterprises may organize a shareholders' assembly, a board of directors, and other organizational structures, which will enjoy full autonomy in production and operations.

### III. Objects of Regulation under Foreign Enterprise Legislation

Under China's current legislation, various concepts such as "foreign capital enterprise," "foreign enterprise," and "permanent mission of a foreign enterprise" have appeared. (Footnote 1) (Cf. "Provisional Regulations for Foreign Exchange Control of the People's Republic of China" (December 1980), "Foreign Enterprise Income Tax Law of the People's Republic of China" (December 1981), "Temporary Provisions of the State Council regarding Control of Foreign Enterprise Permanent Missions" (October 1980). How do these relate to the foreign enterprises discussed in this article? And what are the objects of regulation under foreign enterprise legislation?

To date, two types of foreign enterprise exist in international legislation and practice. The first type is the foreign corporation, which is the original form of the foreign capital enterprise. As far back as 1899, Japan's commercial code stipulated that "foreign corporation" referred to corporations established by foreigners outside Japan opening offices in Japan registered according to Japanese provisions regarding registration of branch offices in that line of business. (Footnote 2) ("Commercial Code of Japan," (1899), p 479) British corporate law states, "Foreign corporation refers to the creation in Great Britain of an agency by a corporation established and registered outside of Great Britain." (Footnote 3) ("Corporate Law of Great Britain," (1967), p 406) Clearly, the important conditions for the creation of a foreign corporation are: 1) a head office established according to the laws of its home country; 2) opening of an agency in the host country; 3) registration according to the laws of the host country. This type of foreign corporation has existed for a long time in Western countries and many developed countries. The second type of foreign enterprise is the modern foreign enterprise, which appeared in 1950's and 1960's. This refers primarily to enterprises whose capital is provided entirely by foreign investors and which are allowed to be established under the foreign capital laws of a developing country. For example, Article 4 of the 1977 "Law of the Arab Republic of Egypt Regarding Arab and Foreign Investments and Free Trade Zones" stipulates that "foreign enterprise" refers to operations engaged in by Arab or foreign capital according to this law and without the participation of Egyptian capital. Indonesian law also states that a foreign enterprise is an enterprise all of

whose capital is provided by foreigners for the purpose of engaging in enterprise operations, constituted by a juridical person according to Indonesian law and domiciled in Indonesia. It is clear that the characteristics of the modern foreign corporation are: 1) an enterprise operated by holders of foreign capital without the participation of capital from the host country; 2) establishment according to the laws of the host country to form a juridical person; 3) domicile in the host country. In summary, the above two types of foreign enterprise, the foreign corporation and the modern foreign enterprise, differ in their legal nature. The latter is normally a subsidiary of a transnational corporation. Although these are controlled by the parent corporation in terms of investment and so on, legally they are independent juridical persons with their own charter and independent assets, independently able to call meetings of shareholders and the board of directors and to engage in all types of commercial activities and litigation in their own name. The former, however, is only a branch or ancillary structure of the parent corporation, part of the same legal entity as the parent corporation. Its legal status is different, as are the laws regulating it. Most developing countries regulate foreign enterprises through their foreign capital law, putting provisions regarding foreign corporations into their corporate law. Even Western countries that do not have specific foreign capital laws and regulate foreign enterprises and corporations through corporate law make use of different provisions to separately regulate these two types of enterprise.

In China, there are three types of enterprises and economic institutions established solely by foreign businessmen: 1) foreign enterprises, i.e., enterprises established within China by a foreign company and other economic organizations or by an individual according to Chinese law and with the approval of the Chinese Government, all of whose capital comes from their investment; 2) foreign corporations, i.e., foreign corporations established abroad and setting up a structure inside China to carry out operations, including foreign corporations cooperating in production and operations with Chinese enterprises; 3) missions established in China by foreign corporations. In order to develop their activities, foreign enterprises may apply to establish a permanent mission in China. Ordinarily, this is allowed to engage only in direct operations.

There can be no doubt that the legal status of each of the three types of organization described above is different. The second type is in fact a branch of a foreign corporation; the third type is a mission of a foreign corporation; and the first type is a foreign capital enterprise set up by China in order to achieve its economic goals. The author believes that the object of regulation under a foreign enterprise law should be the first type of foreign enterprise, the enterprise set up in China according to China's foreign enterprise law by a foreign company, enterprise, or other economic organization or individual, approved by the Chinese Government, entirely through the investment of the foreign company, etc. As for the second type of foreign corporation, it should be regulated by a corporate law to be formulated. For missions of foreign corporations set up in China, provisions should be added to the relevant laws and regulations. So as to avoid unnecessary confusion in implementing the law,

it is proposed that standardized names be applied to the above three organizational types to clarify the concept and area covered. The first should be called "foreign capital enterprise;" the second, "foreign corporation;" and the third, "permanent mission of a foreign enterprise."

#### IV. Directional Encouragement of Foreign Capital Enterprises

What sort of policy does China adopt toward foreign capital enterprises? Based on the foreign capital enterprise being entirely invested in and operated and managed by foreigners, with the Chinese side not participating in any of the management, some comrades recommend that a more stringent policy be applied to them than to joint ventures. Other comrades believe that a more relaxed policy should be applied to them, their reason being that foreign capital enterprises bring in more advanced technology, and their risks are borne entirely by the foreign investors. The author believes that foreign capital enterprises are the same as joint and cooperative ventures, all being important ways in which we bring in and utilize foreign capital. Since each has its own characteristics in such areas as investment, distribution and management and administration, they differ as well in range of establishment, operational time limit, and application procedures; they also develop differently in different regions. However, joint ventures, cooperative ventures, and foreign capital enterprises should all receive equal protection under Chinese law, and, within the scope of the legal provisions, foreign capital enterprises should receive the same preferential treatment as joint and cooperative ventures. We call this focused encouragement and preference for foreign capital enterprises directional encouragement.

Directional encouragement of foreign capital enterprises refers, first of all, to China's encouragement of these enterprises being limited to a specific range. According to the provisions of the "Foreign Enterprise Law," establishment of a foreign capital enterprise requires a project using advanced technology and equipment, or a project in which all or most products are exported. Such a project constitutes the target and range of our encouragement.

Second, foreign capital enterprises falling within the range of encouragement should be given ample encouragement and preference, i.e., for the most part not less than the various protections and preferences enjoyed by joint ventures. In the area of taxes, the "Regulations for Special Economic Zones in Guangdong Province" stipulate that foreign capital enterprises, like Chinese-foreign joint and cooperative ventures, shall have a tax rate of 15 percent and shall enjoy the same preferential treatment in tax exemptions and reductions. In order to fully encourage foreign capital enterprises, the author believes that this preferential provision should be applied throughout the country. At the same time, after a foreign capital enterprise has been approved, if it conforms to the provisions of Chinese law regarding the conditions of juridical persons, it should acquire the status of a juridical person just like a Chinese-foreign joint venture and enjoy the various rights and protections conferred by law. It should be pointed out that investors in foreign



capital enterprises bear greater risks and are therefore particularly concerned about the safety of their investment assets. The legislation of some developing countries provides assurances that foreign investments will not be nationalized or expropriated. In addition to investment-protection agreements signed in recent years with foreign countries that contain similar provisions, China has also added an important clause to its Foreign Enterprise Law: "The state shall not nationalize or expropriate foreign capital enterprises; under special circumstances and according to the demands of common social interest, foreign capital enterprises may be expropriated in accordance with due legal process and by paying appropriate compensation." This is the first clear provision ever made in Chinese legislation regarding the question of expropriation of foreign capital and is highly significant for encouraging foreign capital enterprises."

#### V. Management and Oversight of Foreign Capital Enterprises

Administrative and management authority over foreign capital enterprises lies entirely with the foreign investors. No other person may willfully intervene in their internal operations. However, foreign capital enterprises are an auxiliary component of China's socialist economy, and the final results of their productive operations must be of benefit to China's economic development. How can the productive activities of foreign capital enterprises be made to ensure the legitimate interests of investors and conform macroeconomically to China's economic development plans? The key to this is increased legal oversight and management of these enterprises. The Chinese Government must apply legal measures to carry out oversight and management of founding and registration, auditing, taxation, foreign exchange control, imports and exports, and labor management.

First, founding and registration are an important link in the state's oversight and management of foreign capital enterprises. The founding of such an enterprise must be of benefit to the development of the Chinese economy. Enterprises in violation of Chinese law, harmful to Chinese interests, or not benefiting the development of the Chinese economy should not be approved. For those cases involving national defense projects affecting the national security, projects that severely pollute the environment, endanger public health or affect ecological balance, and products whose production is prohibited in China, the founding of foreign capital enterprises should be prohibited.

During the process of founding a foreign capital enterprise, offices of the Chinese Government responsible for examination and approval and enterprise registration offices should undertake a thorough investigation of operations and scope of the enterprise, its capital structure and investment method, its form and organizational structure, labor management, etc. Only when it has been confirmed that it meets legal provisions and conforms macroeconomically to China's plans for economic construction is it to be approved and allowed to be registered and to operate.

Second, an oversight check should be made of the investors' investment and production operations. Industrial and commercial administrative offices should oversee the enterprise's investments. The foreign capital enterprise should carry out its investment in China within the approved time limit; if its investment has not been made in due time, the industrial and commercial administrative office is empowered to revoke its operating license. Should the foreign capital enterprise change, transfer, or otherwise modify its registered capital, it must report same to the appropriate organ for approval and proceed to change its registration with the industrial and commercial administrative office. In addition, the industrial and commercial administrative office may, in accordance with international practice, inspect the enterprise's operating license once each year to determine its funds and production. The agency responsible for the foreign capital enterprise is responsible for guiding, assisting and overseeing its productive operations; customs, supply, and pricing agencies may also lawfully seek information on the enterprise's imports and exports, sales, and prices.

Third, so that the advanced technology introduced by foreign investors can gradually be mastered, legal measures should be taken, in addition to encouraging the enterprise to transfer its technology to China, to promote the internal transfer of technology. For example, the relevant laws and regulations should clearly stipulate that the investors are responsible for employing various methods to train Chinese staff and workers in the enterprise to update their knowledge and enable them to master the technology. Provisions should be made in such areas as hiring, dismissal, wages and benefits, labor insurance, and discipline to ensure the autonomy of the investors, while at the same time guaranteeing the basic rights and interests of staff and workers.

Finally, in order to supervise and encourage the enterprise's normal conduct of operations and to ensure that it lawfully pays its taxes and the various management fees, legal provisions should be made to oversee that the enterprise has a complete accounting system. Foreign capital enterprises should keep accounting ledgers inside China and carry out independent accounting. Ledgers, report forms, vouchers, etc., should be kept in Chinese. Quarterly or annual accounting reports should be submitted to the local taxation office on time. The investment certificates of foreign investors, the enterprise's accounting forms and final accounts are to be verified and certified by a registered Chinese accountant before they become effective. In this way, we can use the taxation offices and accounting offices to legally inspect and oversee the financial affairs of the foreign capital enterprises.

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CSO: 4006/117

## FOREIGN TRADE, INVESTMENT

### NATIVE PRODUCE EXPORTS TO SET EARNINGS RECORD

OW241325 Beijing XINHUA in English 1106 GMT 24 Dec 86

[Text] Beijing, December 24 (XINHUA)--The export volume of China's native produce and animal by-products this year is expected to hit a record high and earn over three billion U.S. dollars, the corporation in charge of the business revealed today.

Wang Zhixin, president of the China National Native Produce and Animal By-products Import and Export Corporation, said the figure, which is 370 million U.S. dollars more than that was earned last year, has been brought about mainly by the increase in exports of produce such as black tea, rape-seed cakes, cotton-seed cakes, honey and knitted plastic bags.

He said in recent years many of China's export products have won international prizes as a result of improved quality. This year, eight products won international gold medals. Among them are high-quality woolen carpets from Tianjin, potted flowers from Guangdong and Zhejiang provinces, fireworks from Guangdong and Hunan provinces, and women's fur coats from Guangdong.

Wang's corporation, with a history of over 30 years, has established trade relationships with over 6,000 buyers in more than 140 countries and regions, and set up branch offices or representatives in major cities like Tokyo, Seattle, Vancouver, Paris and London.

The president attributed the achievements to the government open policy and the increase in international market demand. However, he pointed out, despite all this, China's export volume is still miniscule compared to the total international trade volume of native produce and animal by-products.

Therefore, Wang said, his corporation will further expand its import and export trade in the coming year, and gradually replace the export of primary products with that of processed products.

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## FOREIGN TRADE, INVESTMENT

### EXPORTS UP, IMPORTS DOWN SINCE LAST YEAR

OW200031 Beijing XINHUA in English 1541 GMT 19 Dec 86

[Text] Beijing, December 19 (XINHUA)--China has exported goods worth 22.1 billion U.S. dollars during the first ten months of this year, according to the Ministry of Foreign Economic Relations and Trade.

Statistics released by the ministry show, in the first ten months of 1986, exports increased by 7 percent while imports decreased by 8.2 percent over the same period last year.

"The deficit is still a serious problem for China's foreign trade," authorities concerned said, "especially deficits with some developed countries could damage the future development of bilateral trade with those countries."

Big increases were seen in the export of textiles, light industry products, arts and crafts, chemicals, cereals, oils, foodstuffs, livestock and animal by-products.

China earned three billion U.S. dollars less in the first ten months of this year over the same period last year due to a drop in oil prices. Petroleum usually constitutes one-fourth of China's total export earnings.

Export earnings in machinery and electronic items increased by 41 percent to 1.59 billion U.S. dollars, and high-tech products like airplanes, television sets and digital control machines are beginning to take a place on the world market.

At the same time, imports of steel, high-technology, heavy equipment and raw materials for the chemical industry increased, but China cut imports of household electrical appliances, synthetic fibers, fertilizer, copper, zinc and aluminum.

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CSO: 4020/80

## FOREIGN TRADE, INVESTMENT

### ELECTRICAL MACHINERY EXPORTS SET SALES RECORD

HK290354 Beijing CHINA DAILY in English 29 Dec 86 p 2

[By "our" staff reporter: "Machinery Sales Abroad Set Record"]

[Text] China's exports of electrical machinery to the developed countries have increased this year as the China National Machinery and Equipment Import and Export Corporation's overseas sales reached a record level.

Of \$342 million worth of equipment the corporation exported by mid-December this year, 8.7 per cent was shipped to North America and 7 percent to Western Europe, corporation President Guo Kun said on Saturday.

The record export figure was well above last year's \$244 million, and the \$300 million average for the past 5 years.

Despite strengthened protectionism, exports to the United States increased by 36 per cent over last year to hit \$30 million. Sales to West Germany doubled last year's \$8.7 million. Some \$21 million worth of electrical products have been sold to Japan, a market the corporation is hoping to export \$100 million worth of goods to annually by 1990.

Guo attributed the increased shipments to the economic recovery in those countries, the strong Japanese yen and Deutsche mark and China's efforts to improve product variety and quality.

Of the total exports, 68 per cent are of lower technology machinery which the developed countries have stopped producing due to high labour costs, Guo said.

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CSO: 4020/80

## FOREIGN TRADE, INVESTMENT

### EXPORTS OF LIGHT INDUSTRIAL PRODUCTS UP

OW291210 Beijing XINHUA in English 0814 GMT 29 Dec 86

[Text] Beijing, December 29 (XINHUA)--The China National Light Industrial Products Import and Export Corporation, the country's principal business dealer in the field, has set a record for exports this year, according to today's PEOPLE'S DAILY.

By mid-December, it had exported goods worth 1.7 billion U.S. dollars, and the figure is likely to reach 18.4 billion [as received] by the end of the year, 32 percent over the state quota.

The corporation has tried hard to edge into new markets and establish a global marketing system, the paper said. Now, it has established business relations with 7,000 firms or business people from 160 countries and regions, the paper said.

"We have sent 70 teams to 70 countries and regions, where they have signed contracts worth 200 million U.S. dollars. At the same time, they also studied the local markets," a leading official of the corporation was quoted as saying.

As this year has witnessed an appreciation of the Japanese yen and devaluation of the U.S. dollar, the corporation has lost no time increasing exports of better-quality durables and TV sets in the European and American markets, the paper said.

Contracts signed with the Soviet Union and Eastern European countries this year involve 136 million U.S. dollars, a "substantial increase" compared with previous years.

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CSO: 4020/80

FOREIGN TRADE, INVESTMENT

FOREIGN INVESTORS IN JIANGSU NOW PAY CHINESE RATES

OW180230 Beijing XINHUA in English 0203 GMT 18 Dec 86

[Text] Nanjing, December 18 (XINHUA)--Foreign investors in Jiangsu, China's top industrial province, now pay Chinese rates for hotels, transportation, and telecommunications facilities, according to the provincial government.

Investors with identification cards enjoy the treatment in the province in accordance with the provincial government's new provisions.

In the past, investors had to pay in foreign currency instead of local currency for goods and services, and now they can use renminbi as well. Other foreigners such as foreign tourists do not enjoy the preferential treatment and continue to pay for a different price determined because of their different salary rate with the Chinese.

The provincial government has also decided to give priority to foreign-funded businesses in the supply of raw materials and public utilities. The prices will be the same as those for Chinese state-owned enterprises.

Joint ventures with advanced technology or producing export commodities are exempt from a land-use fee for five years, starting from the day permission is granted to use the land, and after that time expires, the regular land-use fee can be paid at half the rate for another five years.

Besides state tax exemptions, these enterprises are also exempt from local business income tax. After the first period expires, another three years of local tax exemption or reduction will follow.

Other types of joint ventures are exempt from half of the land-use fee for five years.

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CSO: 4020/80

## FOREIGN TRADE, INVESTMENT

### JIANGSU'S SUBSTANDARD IMPORTS INCREASE IN FIRST HALF OF YEAR

Nanjing XINHUA RIBAO in Chinese 23 Sep 86 p 1

[Article by our correspondent: "Claims of More Than \$20 Million Put Forward, 3.2-Percent Increase From Same Period Last Year"]

[Text] Imports to Jiangsu rose 13 percent over the first half of this year from the same period last year. Inspection by commercial commodity inspection authorities revealed that 7.6 percent of imported goods were substandard, resulting in a claims of \$21.84 million, a 3.2-percent increase from the same period last year.

The major problems which resulted in these imports being found substandard were the following: 1. Poor-quality goods and lack of conformance with standards. For example, Changzhou imported a set of Japanese Heng Te Xian [0077 3676 4848], which did not meet the design standards after completion of its installation and even after numerous negotiations between both sides and refitting. The Nanjing Tumo Research Institute imported from the United States three instruments for the differentiation of live cells using fluorescent light, one of which when turned on caused sparks and was completely useless. Of 772 cars imported, 166 of them were substandard. 2. Increased incidence of short-shipped items. For example, unrefined sugar was 4.8 percent of the total amount. Short shipment of spare parts for electrical machinery and instruments, resulting in shipments being found substandard, rose 15.5 percent over the same period last year. Three lots of color television kits, imported from Japan, were all found to be substandard due to short shipment of components. One lot was found to be missing 10,000 sets of high-frequency heads. 3. Serious damage in shipment. For example, curdling of imported chemical fertilizer due to exposure to dampness resulted in a 7.8-percent loss. Wuxi imported a laser scanner from the United States. As it was poorly packaged, parts were corroded by rust and oxidized and the laser tube was ruined by rust. The scanner was returned for repair. Some 400,000 tapes were examined and found to be pirated.

Although compensation in foreign currency and materials amounting to \$4.88 million has been made, there is no way to compensate for the direct and indirect economic losses suffered by the state. Hereafter, all units and departments involved in imports must protect national economic interests and improve foundational work in order to avoid and decrease incidents of substandard imports as much as possible.

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CSO: 4006/52



## FOREIGN TRADE, INVESTMENT

### BRIEFS

**EXPORT TARIFF REDUCTION**--Beijing, December 31 (XINHUA)--The Chinese Customs Department will reduce the number of export tariffs from the current 23 to seven beginning in 1987, a spokesman from the General Administration of Customs told XINHUA today. The following export products will continue to be charged customs duties: eel fry, prawns, chestnuts, raw lacquer, tungsten ore, sheep skins and antimony. Their duty rates will remain the same, he said. The products to be exempted from tariff include jellyfish, almonds, traditional Chinese medicines, coal, iron and other mineral ores. Meanwhile, to reduce exports of raw silk, the customs will start charging duty on raw silk to reduce its blind export, the spokesman added. The duty will be 30 percent of the export value. [Text] [Beijing XINHUA in English 1222 GMT 31 Dec 86] /8309

**ELECTROMECHANICAL GOODS EXPORTS SOARING**--Beijing, December 27 (XINHUA)--This year China's export of electromechanical products handled by a national corporation is expected to reach 342 million U.S. dollars, three times more than in 1978. "Equipment exported to the United States increased by 36 percent, exports to the Federal Republic of Germany doubled, and sales to Eastern European countries also increased," Gou Kun, director of the China Machinery and Equipment Import and Export Corporation, said today. The sales of metal-cutting machine tools, bearings and electromagnetic thread have increased by five times," he reported, "and high-tech products like planes and television sets have entered the international market." The corporation has set up joint ventures and branch companies in six countries and regions, including Australia, Japan and Hong Kong, and now exports over 200 products. [Text] [Beijing XINHUA in English 1532 GMT 27 Dec 86] /8309

**CHANG JIANG RIVER PORTS**--Wuhan, December 19 (XINHUA)--Construction started yesterday on one of four foreign trade ports to be opened along China's Yangtze River. The ports, in Huangshi and Wuhan in Hubei Province, Wuhu in Anhui Province and Jiujiang in Jiangsu Province, will have ten berths and will handle ocean-going vessels carrying 3.1 million tons of cargo a year. To keep up with foreign trade development, China has already built a number of deep-water berths for ocean-going ships at Nantong, Zhangjiagan, Zhenjiang and Nanjing ports, all in Jiangsu Province. [Text] [Beijing XINHUA in English 0740 GMT 19 Dec 86] /8309

NEW SILK EXPORT-IMPORT CORPORATION--Beijing, December 24 (XINHUA)--The China Silk Export and Import Corporation will open January 1, 1987, according to an official from the Ministry of Foreign Economic Relations and Trade today. The corporation, to be managed by the Ministry of Foreign Economic Relations and Trade, will handle transactions in garments made of silk and mixtures of silk and other fibers, conduct compensation trade and process goods with supplied materials. The corporation will also be in charge of the pricing of silk products and forward export license applications to the Ministry of Foreign Economic Relations and Trade. [Text] [Beijing XINHUA in English 1111 GMT 24 Dec 86] /8309

FUJIAN FOREIGN ENTERPRISES SERVICES--Fuzhou, December 19 (XINHUA)--Two companies serving Sino-foreign joint ventures, cooperative enterprises and factories with exclusive foreign funds went into business in this capital of Fujian Province today. One of them will provide foreign investors with information and official services, recruit workers and act as an agent for domestic and overseas transportation. The other company will help the enterprises get supplies of raw materials and machine parts, and sell their products. Provincial Governor Hu Ping said at the ceremony that the companies will put into practice China's preferential policy toward foreign-invested enterprises. He said Fujian will not only open further to Southeast Asian countries, Hong Kong and Macao, but also welcome investors from the Americas, Europe and Africa. Up to now, Fujian has approved 699 projects involving foreign investment, 324 of which have already gone into operation. [Text] [Beijing XINHUA in English 1610 GMT 19 Dec 86] /8309

CUSTOMS ADJUSTS TARIFFS--The national conference on customs of the Customs Taxation Bureau is implementing some favorable adjustments in policy for the latter half of this year and next year, proposing some concrete measures. First, there is an adjustment favoring equipment for essential installations, such as railroads, highways, harbors, and airports, which must be imported or cannot be supplied domestically. These may fall into the category of goods with reduced taxes and be given favorable treatment in order to support the growth of essential installations. At the same time, in order to improve technical reform in industry, beginning in 1987 preferential treatment will be given to equipment which must be imported for technical reform, under the national technical reform plan in order to strengthen self-reliance. [From our correspondent Sha Mei [3097 2734]: "Essential Imports for Infrastructure and Technical Reform Projects Will Be Given Preferential Treatment] [Text] [Beijing GUOJI SHANGBAO in Chinese 28 Aug 86 p 1] 13284/9738

CSO: 4006/52

## ECONOMIC ZONES

### ECONOMIST ON NEW ECONOMIC ZONE CONCEPT

HK190325 Xian Shaanxi Provincial Service in Mandarin 0030 GMT 19 Dec 86

[Excerpts] The establishment gathering of the Longhai-Lanxin [Lanzhou-Lianguyungang and Lanzhou-Xinjiang Railroad] Economic Studies Promotion Association and its economic development seminar opened in Xian on 18 December. The meeting was attended by responsible persons from Jiangsu, Anhui, Henan, Gansu, Qinghai, Xinjiang, and Shaanxi and of 40 cities, prefectures, and autonomous prefectures in along the Longhai-Lanxin economic belt. Also present were famous economists Ma Hong and Tong Dalin; and party and government leaders of Shaanxi and Xian Bai Jinian, Dong Jichang, Zhang Boxing, and Yuan Zhengzhong.

The Longhai-Lanxin railroad spans the economic zones of eastern, central, and western China, and is a major communications artery in the country's northern regions. An economic zone in being is objectively formed with this railroad as the link. However, for various historical, natural, and social reasons, this zone is basically in a developing stage.

The Longhai-Lanxin Economic Studies Promotion Association is a high-level research and consultative body. It will organize the forces of various sectors to investigate and study the strategic, common, overall, and policy problems in the development of this zone, in order to guide, stimulate, and spur the development of lateral economic ties and commodity economy in the zone.

Dong Jichang, deputy secretary of the Provincial Party Committee and secretary of Xian City CPC Committee; Acting Governor Zhang Boxing; and Xian Mayor Yuan Zhengzhong spoke at the opening session. The well-known economist Tong Dalin delivered a report entitled "New Pattern for Asian-European economic cooperation and the modern silk road."

Tong Dalin was the first to propose the establishment of the new concept of the vast economic zone along the Longhai-Lanxin railroad. He said in his report: The current trend of world economic development is for economic cooperation. We should consider our economic construction strategy in light of the world market development trends. More and more people are accepting the concept that I proposed of the Longhai-Lanxin economic zone and the establishment of a land bridge between Europe and Asia. The establishment of this association is a proof of this.

However, we cannot just rely on the railroad to turn this economic belt into a new modern silk road. We must also establish an air corridor. Shaanxi is China's largest aviation industry base. The conditions for this therefore exist.

On the current tasks of the Longhai-Lanxin economic zone, Tong Dalin said: We must first do a good job in organizing a joint market in this zone. In light of the different characteristics of the cities along the railroad, we should establish a variety of technology, information, finance, and production materials centers, and so on. All the cities must become treasuries of talent.

Tong Dalin's report also dealt with questions of urban construction and economic reform. He said: To make a success of urban economic reforms, the leadership must first embrace the concept of modernization. How can the leaders lead others to attain modernization if their own thinking is conservative and backward?

Tong Dalin said: A modern city is represented and symbolized by a large number of entrepreneurs and experts in production. To judge a city's party and government leadership, we should see what is the fate of the entrepreneurs in that city, and whether the leaders are wholeheartedly relying on, supporting, and helping the entrepreneurs and production experts, clearing away difficulties and problems for them, taking up the cudgels for them, righting wrongs for them, and creating an excellent environment for their growth and development.

Tong Dalin expressed the hope that the leading comrades of the party and government at all levels will have broad vision, be conscious of developing commodity production, and share weal and woe with the reformers and entrepreneurs.

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CSO: 4006/243

## ECONOMIC ZONES

### SHENZHEN URGES SCIENTISTS TO OPEN BUSINESSES

OW200150 Beijing XINHUA in English 1620 GMT 19 Dec 86

[Text] Shenzhen, December 19 (XINHUA)--The Shenzhen city government is encouraging scientists, technicians and skilled personnel to set up their own businesses here, one of the four special economic zones in the country.

"We especially welcome those from other places who have new inventions, products or patented technology to establish their own enterprises in the city," said deputy mayor Zhu Yuening while explaining temporary regulations on the aspect here today.

The regulations, which were worked out recently, aim to bring the initiative and creativeness of scientists and technical personnel into full play and speed up the transformation of science and technology into productivity, Zhu said.

"They can invest individually or collectively in various sectors and enterprises relating to advanced science and technology," Zhu said.

Their investments can take any form they like. They can become shareholders just by offering their new products, inventions and patented technology, Zhu said.

The enterprises have the right to hire and fire employees and manage the business independently, according to the regulations.

They can apply for an income tax waiver for the first two to three years and receive various loans from state owned banks or foreign banks after being approved by the government, the regulations say.

They can also be exempted from customs duties on imported equipment, machines, spare parts, raw materials, transportation vehicles and other means of production, the regulations stipulate.

The government will offer other conveniences to the business people allowing them to go to Hong Kong, according to the regulations, which also encourage the enterprises to buy into or merge with other enterprises.

After the first three years, the enterprises can still apply for further income tax reductions if they reinvest their profits.

Those who set up enterprises will be granted city resident certificates, the regulations say.

So far, the city government has approved two such enterprises.

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## ECONOMIC ZONES

### COASTAL CITIES READY FOR MORE FOREIGN INVESTMENT

OW271946 Beijing XINHUA in English 1438 GMT 27 Dec 86

[Text] Beijing, December 27 (XINHUA)--The economic and technological development zones in 12 coastal cities opened to the outside world are ready to welcome more investors from home and abroad.

The cities have completed infrastructure construction of one million square-meters, 70 percent increase over last year, and seen as investment worth 400 million yuan, 40 percent more than last year, said an official from the State Statistics Bureau.

"By now, the infrastructure in the cities including roads, telecommunications, water-supply, electricity supply and heating systems have all been improved," the official said.

China officially opened 14 coastal cities in 1984. All of them, except Wenzhou and Beihai, have set aside industrial investment zones. Combined, these areas cover an area of 117 square-kilometers.

While improving the working and living conditions in the zones, the cities' governments have also developed or improved regulations governing preferential treatment of investors in these zones, according to the official.

Thanks to an improved investment environment, the zones have attracted more and more overseas investors and more foreign business people are willing to do business or increase their investment in the cities, the official said.

The governments of the cities plan to pay more attention to developing the industries of building material, food, daily consumer goods, mechanical and electrical products, electronic products, medical equipment, sophisticated chemical products, high-tech and microbiological projects, microelectronics, and telecommunications, the official said.

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CSO: 4020/80

## ECONOMIC ZONES

### ECONOMISTS ON NATIONAL DEVELOPMENT ISSUES

HK200637 Xian Shaanxi Provincial Service in Mandarin 0030 GMT 20 Dec 86

[Text] Yesterday, well-known economists Ma Hong and (Li Boxi), respectively chief executive and permanent executive of the State Council's Economic and Technological Development Research Center, delivered speeches at the economic development seminar of the Longhai-Lanxin Economic Studies Promotion Association.

Ma Hong said: In the current major readjustments of the world economy, it can be predicted that the linking up of the economic zone along the Longhai-Lanxin railroad, which crosses China from east to west and acts as a land bridge between Europe and Asia, will be significant in three aspects:

1. It will help to concentrate material and manpower for the exploitation of the resources of western China through a variety of channels and at a variety of levels, bring a number of industries closer to their raw materials sources, reduce labor and transport consumption, and promote the further rationalization of the production structure in this zone.
2. It will help to bring into play the radiation role of the key cities in the zone. They will be able to develop commodity production according to their own characteristics, and more effectively organize production and circulation, thereby stimulating the rational circulation of commodity economy, information, and talent in this zone.
3. It will help to break down the separation of vertical and horizontal ties and the blockades between different regions, and promote the shift of this zone to open-style.

Speaking on the significance of information for developing the Longhai-Lanxin economic zone, (Li Boxi) said: Now we are all facing structural readjustment. The urban areas must grasp infrastructural construction and education. And the most important thing is an information system. We must consider simultaneous development in information and material. Economically developed countries are now busily erecting information network centers, not trade centers in their cities. This has a major



impact on enhancing science and technology in the cities themselves and on their ability to accept new skills. Moreover, the current trend of development is for the establishment of urban consortia.

(Li Boxi) said: It is short-sighted to fail to pay attention to policies. A region that carries out scientific policy-making will advance in the forefront and enjoy the finest prospects. By policy, I mean a coordinated policy setup.

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CSO: 4006/243

## ECONOMIC ZONES

### SPECIAL ECONOMIC ZONES OFFICE HOLDS WORK FORUM

HK291330 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 26 Dec 86

[Text] The situation of four special economic zones throughout our country is very good this year. The view that special economic zones are unsuccessful is contrary to the facts. This was the conclusion reached at the forum on investigation and study carried out in special economic zones which was recently held by the Special Economic Zones Office of the State Council in Shantou Special Economic Zone.

The forum held: It can be said that this year is a crucial year in which special economic zones have progressed from the stage of making a start to the stages of grasping production, measuring up to standard, and striving for benefit. The excellent situation of the special economic zones has been embodied not only in the capital construction of tourism and trade facilities but also in grasping production and in building bases. The sources of foreign investment have come not only from Hong Kong and Macao but also from various countries of the world. In the past, special economic zones imported what could be imported but have now selectively imported items. They can now export their main products to the international market. In addition, special economic zones have made a step forward in reform, centered on the economy and production. They have scored gratifying achievements in improving the investment environment. The situation in earning foreign exchange from export of industrial and agricultural products is better than last year.

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CSO: 4006/243

## DOMESTIC TRADE

### BRIEFS

DOMESTIC MARKET IN 1986--Beijing, 30 Dec (XINHUA)--China has witnessed a flourishing home market this year, today's ECONOMIC DAILY reported. Agricultural and sideline products purchased by the state are worth 92.5 billion yuan, up 11 percent over last year. As for the light industrial output, from January to November, the products purchased by the state were worth 20.1 billion yuan, an 8.6 percent increase over the same period of last year, the paper said. As for the sales of commodities, the retail turnover for the various commodities from January to November was 44.2 billion yuan, a 14.7 percent increase over last year. Because of imbalances in the production distribution of commodities in some places, the paper said, there are still problems of overstocking and shortages in different places. [Text]  
[Beijing XINHUA in English 1034 GMT 30 Dec 86 OW] /8309

CSO: 4020/80

## INDUSTRY

### ZHANG JINGFU ON 2D NATIONAL INDUSTRIAL SURVEY

OW220301 Beijing XINHUA Domestic Service in Chinese 1535 GMT 18 Dec 86

[By reporter Yang Like]

[Text] Beijing, 18 Dec (XINHUA)--Zhang Zingfu, head of the State Council's Leading Group for National Industrial Surveys and state councillor, made the following remark at a national telephone conference this evening: The second national industrial survey was launched early this year. During the first half of the year, survey forms were filled out and submitted by various enterprises. Then these forms were examined by the competent authorities at various levels. The general survey of industrial enterprises has now been completed. Next year will be a crucial one as the data collected will be processed and the results of the survey published. It is imperative that we make continued efforts and do a quality job in fulfilling the various tasks required. The data obtained from the general survey will be divided into various categories, and processed by computer from now until September next year.

Carried out pursuant to a State Council decision, the second national industry survey program entered the stage of full-scale survey in the first quarter of this year following 2 years of ample preparations in 1984 and 1985. The general survey, which directly covered 360,000 enterprises, proceed satisfactorily, thanks to the attention given to it by the leadership at all levels, the serious and responsible workstyle of the survey personnel, and the efforts made by the county, city (prefectural), and provincial authorities concerned and by the departments in charge of this survey to strictly control the quality of the work. The percentage of errors in the survey forms submitted by the enterprises is generally lower than the present nationwide limit of 2 percent. Actually, the average rate of errors is only 2.78 per 1,000, which is certainly an unusually good result. Up to now most provinces have fed all the data collected from their enterprises in the general survey into computers, totaling about 4.5 billion bytes.

Zhang Jingfu pointed out: In success or failure of this general survey is in the main, determined by two factors: One is the accuracy of the data collected in the survey; the other is the depth of our work in analyzing and studying these data. These two factors are closely related. The emphasis of analytical

study next year should be shifted from analysis of the work of enterprises to analysis of the work of the various areas and departments and of the whole country. All provinces, autonomous regions, and municipalities as well as the State Council departments concerned are requested to take the lead and achieve good results in doing this. Leading comrades of the general survey organizations at all levels should concentrate their efforts on three tasks: One, they should set work targets. In the light of the actual situation in their respective localities and trades, they should choose a subject for study based on such important needs as economic reform, formulation of plans, and implementation of work programs and technological transformation projects in their specialized fields so that their study will have a specific goal. Two, they should organize a work force. It is insufficient to rely merely on the manpower of the general survey offices at various levels. It is necessary to pool the efforts of all related economic departments, including economic system restructuring commissions, planning commissions, economic commissions, and financial, statistical, price control, and labor administration departments as well as all economic research organizations, so that they may share the workload and cooperate with one another to make the work a real success. Three, they should ask experts to discuss and verify major analytical study reports to determine the reliability of data contained in the reports, the accuracy of the examples and questions cited, and the feasibility of the suggestions and measures proposed with a view to deriving real benefit from these reports.

Zhang Jingfu said: The results of the general industrial survey will be made public next year. Some of the major indicators will be made public to the outside world. The information gained from the general survey is an important resource and a valuable asset for our country and society. Analytical study of these data should serve the following purposes: One, it should serve the needs of the leadership in making policy decisions, that is, it should provide decision-makers with necessary data as a basis for formulating decisions. Two, it should serve the several hundred thousands of enterprises by supplying information to them so as to broaden their field of vision. Three, it should serve the broad masses by enabling them to see our socialist construction accomplishments over the past 30 years or so, stirring up their labor enthusiasm, making them perceive our present weaknesses and problems, and encouraging them to resolve these problems by carrying forward the spirit of masters of their own fate. Four, it should serve the needs of scientific research and education. In addition, one more task of importance is to serve the purpose of opening to the outside world and developing China's economic cooperation with other countries.

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CSO: 4006/255

## INDUSTRY

### STATE ECONOMIC COMMISSION OFFICIAL ON SCRAP STEEL, IRON

OW181443 Beijing XINHUA Domestic Service in Chinese 0846 GMT 18 Dec 86

[Excerpts] Beijing, 18 Dec (XINHUA)--Speaking at a national conference on quality control of scrap iron and steel in Beijing today, a responsible person of the State Economic Commission pointed out that to meet the needs of the developing steel and iron and machine-building industries under the Seventh 5-Year Plan, it is necessary to do a still better job in recovering and processing scrap iron and steel.

Scrap iron and steel is a major material source of China's iron and steel industry. Of the world's major steel producers about 40 percent use scrap steel and iron as raw materials. In China, nearly 30 percent of steel is produced using melted down steel and iron as raw materials.

Under the Sixth 5-Year Plan, China recovered a total of 103 million metric tons of scrap iron and steel, up 18 million metric tons from the Fifth 5-Year Plan. Compared with the Fifth 5-Year Plan, under the Sixth 5-Year Plan, some 24 million metric tons less of pig iron were used to make steel. This helped us save 34 million metric tons of standard coal and 87 metric tons of iron ore as well as the transportation of 17 million metric tons to freight.

The State Economic Commission's responsible person also pointed out that beginning 1 January next year, mandatory planning for scrap steel and iron will be abolished, and a scrap steel and iron market will be set up. This calls on the leaders of various departments and enterprises concerned to stress quality control of scrap steel and iron and follow relevant state policies and regulations in conducting frequent inspections and checks and in buying, selecting, and using scrap steel and iron.

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CSO: 4006/255

## INDUSTRY

### AUTOMOBILE PRODUCTION DECLINES; SALES FALL

HK040750 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1501 GMT 3 Jan 87

["Roundup" by reporter Jin Guolin (6855 2654 2651): "Reasons for Output Decline in China's Automobile Industry--ZHONGGUO XINWEN SHE headline]

[Text] Beijing, 3 Jan (ZHONGGUO XINWEN SHE)--Since China turned out its first automobile in 1956, its automobile output has been increasing for more than 30 years. The output increase was particularly significant in recent years. However, last year, auto production suddenly declined and output decreased for the first time. It is estimated that the number of automobiles produced will be over 70,000 less than that in the preceding year, which was the most productive year in history.

A direct reason for this is the poor sales of automobiles on the domestic market for a year and a half. To date, there are 45,000 China-built automobiles in stock, an increase of more than 200 percent over last year. China's largest auto production base--the Changchun First Auto Plant--has more than 14,000 "Jiefang" automobiles in stock. Its car parks are all jammed with cars. Because of this overstocking of automobiles, some auto industry enterprises have experienced fund turnover difficulties and have been unable to expand production. With the decline in output, prices have dropped. On the average, prices of China-built automobiles are 20 to 40 percent lower than those 18 months ago. Looking back at the "auto fever" that swept across the mainland in 1982, 1983, and 1984, one indeed finds it "discouraging to recall the past."

There are many reasons for the poor sales of automobiles on the market. Last year, the state adopted measures to control and check credit and the purchasing power of social groups. In addition, the shortage of oil and high prices have also discouraged people from buying cars. Even peasants who want to buy automobiles for transportation hesitate. As a result, automobile sales have declined. A second reason is that China has imported a large number of automobiles in recent years. In 1985, the number of cars imported by China reached 350,000, which is equal to 80 percent of its own output in that year.

This has seriously affected the domestic auto market. Because of the decline in the country's domestic purchasing power, there is also an overstocking of imported cars in the country. It now has about 100,000 imported cars in stock. The state has decided to sell them at reduced prices. This further affects the marketability of China-built automobiles.

Some enterprises should also be blamed for the poor automobile sales. First, during the "auto fever," they produced or assembled a large number of low-quality cars and imitations, with the result that they could not successfully face competition. Second, some enterprises have lacked market sense. In addition to developing new generations of cars, they have continued to produce old models, thus creating an overstocking problem.

On the other hand, the poor automobile sales have given producers of low-quality cars a difficult time and forced them to merge with [words indistinct] brands of cars and high-quality cars, thus leading to a change in China's auto industry and creating conditions for the implementation of the principle of "amalgamation, high standards, mass production, and specialization" in the auto industry in the future. This has given some enterprises a "marketing" lesson and has some positive significance for the development of China's auto industry form production in the direction of a combination of production and management.

Now, China's auto industry has shown signs of an upturn. According to a statistical survey, in November last year, although automobile output increased by 2,000, there were 5,000 fewer cars in stock than in October. Some auto plants are now trying to solve their problems by allowing customers to buy cars on credit or by installments. Meanwhile, the state is beginning to strictly control the import of cars. Recently, it decided to order people to refit 100,000 old cars. Thus, the auto producers' headache will be alleviated somewhat this year.

Now, China is building 10 light and heavy automobile production bases in the northeast, Beijing, Jinan, Nanjing, Xiangfan, Xian, and Chongqing with a large sum of investment. In addition, several large auto producer groups, such as the "Jiefang" and "Dongfeng" groups, have been formed. All this has laid a foundation for the revival of the country's auto industry.

At present, China's auto industry is not quite developed. With the development of China's modernization, the country's auto industry will become a major industry in its national economy and, inevitably, China will have to enter the "auto age." It can be said that China's auto industry still has a bright future.

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CSO: 4006/255



## INDUSTRY

### CIRCULAR ON MANAGEMENT OF SMALL COAL MINES

OW281305 Beijing XINHUA Domestic Service in Chinese 0256 GMT 23 Dec 86

[Text] Beijing, 23 Dec (XINHUA)--The State Council recently issued a "Circular on Placing Village and Town Coal Mines Under the Administration of Coal Industry Departments." The gist of the circular is as follows:

In recent years, village and town coal mines in China have developed rapidly and played an important role in alleviating the shortage of energy sources and helping the people in coal-producing localities become well-off. Facts show that village and town coal mines are pillars of the rural economy in coal-producing localities, and an important form of undertaking taking advantage of China's rich coal resources and accelerating the development of our coal industry. However, in the course of developing village and town coal mines, such problems exist as contending for resources, indiscriminate mining, and disregard of safety. These problems must be solved quickly.

Village and town coal mines are different from ordinary village and town enterprises. The exploitation of coal resources needs unified planning and guidance. Prospecting, mining, and transport of coal are highly technical tasks requiring strict operational procedures. Personnel working in shafts constantly risk such hazards as gases, cave-ins, and floods; therefore, all mine shafts should have safety equipment, the necessary disaster-fighting capability, and rescue means. In accordance with the "Mineral Resources Law" promulgated by the government, the State Council has decided that village and town coal mines be placed under the unified administration of the Coal Industry Departments in order to ensure the rational exploitation of coal resources, stop such malpractices as contending for resources and indiscriminate mining in disregard of consequences, provide village and town coal mines with technical guidance on safe production, improve working conditions and safety in coal shafts, and further develop village and town coal mines.

1. In implementing administration, the primary responsibility of coal industry departments is to make overall plans, ensure coordination, provide services, and carry out inspection and supervision. Departmental administration does not change the ownership of any enterprises, and village and town coal mines will continue to take care of their own production, supply, and marketing.

2. It is necessary to implement the policy of the party Central Committee and the State Council on encouraging the people to run coal mines, adhere to the principle of stressing both exploitation and protection of coal resources, give coal mines more freedom while keeping them under proper control, and exploit coal resources according to a unified plan.
3. While improving management of state-owned coal mines, the coal industry departments at all levels should also ensure good management of village and town coal mines, provide them with guidance with regard to planning, techniques, and safety, and effectively organize accident prevention and rescue work.
4. It is necessary to earnestly implement the "Mineral Resources Law" and the "Regulations on Mining Safety," and to enforce strict procedures for examining and approving requests for opening new mines. All major coal-producing provinces (autonomous regions and municipalities) should formulate, as soon as possible, measures for managing village, town, and private coal mines, based on the relevant provisions of the "Mineral Resources Law" and this circular.
5. People's governments at all levels should attach great importance to safe production of village and town coal mines, check up any coal mines that operate without license or fail to meet safety standards, and adopt effective measures to ensure safe production.
6. All localities and all departments concerned should cooperate with each other in the interest of the whole, and seriously implement the central authorities' policy of "actively supporting, rationally planning, correctly guiding, and improving management of" village and town enterprises to bring about the sound development of village and town coal mines.

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## INDUSTRY

### BRIEFS

STEEL OUTPUT--Beijing, 16 Dec (XINHUA)--China's steel output is heading for this year's target of 50 million metric tons at the speed of 140,000 metric tons per day. The 50-million-metric-ton target is expected to be met on the 18th this month. [Summary] [Beijing XINHUA Domestic Service in Chinese 1154 GMT 16 Dec 86 OW] /8309

LIGHT INDUSTRY OUTPUT VALUE--The total output value of China's light industry is likely to reach 170 billion yuan this year and foreign exchange earnings set all-time record. China prefulfilled annual production plan of bicycles, watches, and detergent ahead of schedule. [Text] [Beijing Domestic Service in Mandarin 1200 GMT 21 Dec 86 OW] /8309

CSO: 4006/255

## AGRICULTURE

### NATIONAL RURAL INTERBANK NETWORK TAKES SHAPE

OW162019 Beijing XINHUA in English 1534 GMT 16 Dec 86

[Text] Beijing, December 16 (XINHUA)--A national network for rural interbank borrowing and lending has taken shape as a result of rural banking reforms. This has helped facilitate the circulation of funds, improve economic returns, and promote commodity production in rural areas, according to Ma Yongwei, president of the Agricultural Bank of China.

According to the previous rigid practices, borrowing and lending was not allowed between branches of the Agricultural Bank of China, which is the main source of rural funding. If they were short of funds, they were supposed to borrow from the head office, and the head office would, in turn, borrow from the People's Bank of China--the Central Bank.

"Though there are great differences between bank branches as far as the demand for funds is concerned, because of different locations and distribution of labor, previously they could not help each other," Ma said today at a press conference.

Along with the reform of China's rural banking system, interbank borrowing and lending between branches of the agricultural bank, and with other specialized banks has begun.

According to incomplete statistics, branches in 11 provinces and municipalities, including Jilin, Beijing and Jiangsu, handled interbank borrowing and lending to the tune of 14.94 billion yuan between January and November.

"Interbank call markets of the agricultural bank have been set up at national, prefectural, county and trans-regional levels," the president told reporters.

In November, 30 branches from different localities held an interbank call fair in Foshan City, Guangdong Province. In only half a day, deals worth 1.62 billion yuan had been made. The amount of funds, the maturity and interest rates were all freely decided. A national network for interbank borrowing and lending was formed after the fair.

Trading fairs of this kind are seen in other places too, such as Shenyang, Harbin and Wuhan cities, Ma said.

In order to promote interbank activities, the head office of the agricultural bank began to report once every ten days on the fund situation of all of its branches from September, Ma said.

Tasks for next year include the setting up of five regional centers for interbank activities and the opening of a bill-discounting market. Possibility of opening a security market will also be explored, Ma said.

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## AGRICULTURE

### NONGMIN RIBAO ON LATERAL FLOW OF CAPITAL

#### Flow of Capital Preliminarily Established

HK030434 Beijing NONGMIN RIBAO in Chinese 16 Dec 86 p 1

[Report by Zhao Zekun (6392 3419 3824): "Agricultural Banks Establish Networks for Lateral Flow of Capital"]

[Text] Since the beginning of this year, agricultural banks at various levels have actively promoted the lateral flow of capital. Branch banks in 30 provinces, regions, and municipalities and in cities with provincial-level economic decision-making authority across the country have entered the capital inter-bank loan markets. According to incomplete statistics of branch banks in 11 provinces, regions, and municipalities, the amount of inter-bank loans has reached 15 billion yuan and that of loans from other specialized banks is more than 1.8 billion yuan. A network for the lateral flow of capital of agricultural banks across the country has preliminarily been established.

With the continuous development in depth of the reform of the rural economic structure, rural financial departments are required to change the vertical capital distribution system and to initiate the lateral flow of capital. Proceeding from the implementation of the capital management responsibility system, the Agricultural Bank has required its branches at various levels to make use of the differences in time, season, localities, and items in the process of the turnover of loaned funds to initiate the lateral inter-bank loans of capital within the agricultural bank system and among different bank systems. Beginning in September, the general office has issued one national notice every 10 days on the cash situation of various branch banks; this notice also provides information to promote lateral inter-bank loans of capital. Interregional and multi-layer capital inter-bank loan markets within the agricultural bank system have been set up at the county, prefectural, provincial, and national levels and the volume, duration, and interest of inter-bank loans are to be decided through free negotiations between the two parties concerned. At the national meeting for the flow of capital held by the agricultural bank system in Foshan, Guangdong, near the end of November, more than 1.6 billion yuan of inter-bank loans were granted within only half a day. The banks also initiated and organized a network for the flow of capital among agricultural banks across the country. The lateral inter-bank loans of capital have helped agricultural production and town and township enterprises in some localities

overcome the difficulties caused by the shortage of capital in the course of their development. To date, agricultural loans and loans for town and township enterprises granted by agricultural banks have respectively increased by more than 5 billion yuan and more than 7 billion yuan compared with those of last year. The situation of the shortage of funds for purchasing agricultural and sideline products in some localities has also been improved.

#### NONGMIN RIBAO On Inter-bank Loan Market

HK030444 Beijing NONGMIN RIBAO in Chinese 16 Dec 86 p 1

[Commentator's article: "Actively Develop a Capital Inter-bank Loan Market"]

[Text] The current of the reform of the rural economic structure has affected various sectors. The Agricultural Bank system, the main channel of agricultural loans, has finally got down from its high horse of being the "top boss," stepped out of its small scope of sitting down for negotiation, and run capital inter-bank loan markets for lateral flow and regulation of capital. It has indeed taken a gratifying step.

It is imperative to have the guarantee of capital for promoting the healthy growth of the rural commodity production and the prosperity of the rural economy. Pre-production, production, and post-production work in agriculture need capital and the prosperity and development of township and town enterprises, diversified management, and circulation need even a larger volume of capital as a backup force. In recent years, the demand for resolving as a backup force. In recent years, the demand for resolving the problem of capital shortage has been rather strong, but the agricultural banks are bound hand and foot by such things as earmarking a fund for a specified purpose only, planned targets, the scale of loans, and so on. On the one hand, money has remained unused in the face of a certain project for a long time and nobody can touch it. On the other hand, another project badly needs capital and is unable to get it no matter how hard it tries. The phenomenon of being unable to withdraw money sent out long ago has frequently occurred. Everyone is stressing the necessity of accelerating the capital turnover rate and of using the same amount of money to serve more purposes. However, because of various rules and regulations and the mutual conditioning of various links, the regulation of flows and the acceleration of capital turnover have become empty talk.

The setting up of the capital inter-bank loan markets has enlarged the scope of activities of the agricultural banks. Measures such as the capital management responsibility system and the stress on good economic results have paved the way for the capital inter-bank loan markets, making it possible for inter-bank flow of capital.

We should also be aware that the capital inter-bank loan markets have just been set up and the lateral flow of capital in rural areas has just started. The bank system should strengthen the sense of capital markets and the sense of management, gradually form regular centers for the flow of capital across the country, develop multipurpose capital markets, set up promissory notes discount markets, and explore stock exchange markets. Party and government departments at various levels should also give an active support to this newly emerging thing so that the rural capital markets will become even more prosperous.

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## AGRICULTURE

### RADIOBIOLOGICAL TECHNOLOGY USED IN AGRICULTURE

OW171658 Beijing XINHUA in English 1542 GMT 17 Dec 86

[Text] Beijing, December 17 (XINHUA)--China has made substantial progress in the application of nuclear technology in agricultural production, the leading Chinese newspaper PEOPLE'S DAILY suggests today.

"Although starting later than other countries, China has set up 140 research institutes which are staffed by 2,000 experts studying the application of such technology in agriculture.

By the end of 1985, the paper said, these institutes had developed 194 improved hybrids through mutations of 19 plant species, leading the world in seed breeding technology.

There has also been significant progress in applying isotope technology in ameliorating soil, rational application of fertilizers and agricultural environment protection, the paper added.

Now a national research system and academic exchange network have been formed and this indicates that the application of nuclear technology in agriculture has entered a new stage of development, the paper said.

Agricultural experts said that they will concentrate on the use of nuclear technology in solving key agricultural problems that are urgently needing solution, such as induction of hereditary variation of plants by physical, chemical and biological technology to breed plant varieties that is hard to achieve in nature or by other means, improvement in cultivation methods and prevention and control of alkaline soil, and diagnosis of plant diseases and food preservation.

The paper said that a labeled compound synthetic laboratory is being built in China to stimulate the study and production of isotope. It urged to set up a research center for the application of nuclear technology in agriculture, which China has every condition to operate.

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## AGRICULTURE

### RURAL ECONOMIC DEVELOPMENT DESPITE CALAMITIES

Chengdu SICHUAN RIBAO in Chinese 23 Sep 86 p 1

[Article by the provincial statistics bureau and the research laboratory of the provincial general office: "Overall Growth in the Rural Economy in a Year of Calamity"]

[Text] This year, as Sichuan strives for increased agricultural production and income, it faces many difficulties and problems. The most salient of these is that spring of this year there has been a succession of disasters. The statistics as of the end of June alone show that a total crop area of more than 20 million mu suffered damage, and the disaster swept over 139 counties. Added to this are such factors as shortages of fertilizer and oil and a reduced area of spring cropping, which have made rural economic growth even more arduous.

Under such circumstances, how Sichuan's rural economy should be dealt with has become a problem that attracts a good deal of concern and debate. Viewing the overall situation of Sichuan's rural economy, it is gratifying to see the vast numbers of cadres and the masses battling to save themselves from disaster guided by the spirit of a Central Committee document; in a year of calamities, the province's rural economy is still moving toward overall growth.

#### 1. Grain Production Is Starting To Rise Again

With the perfection of the grain production quota purchase system and implementation of policies and measures aimed at supplementing agriculture with industry, grain production has acquired good growth momentum. Even though the various calamities caused severe losses in grain production, preliminary statistics show that the autumn grain yield still increased by 290 million kg over last year, a 3.7-percent increase, and early spring rice yields increased by more than 10 percent. Due to an increase in unit production, total production of midseason rice and single-crop late rice will increase. If the weather is normal during the late-spring harvest, total production this year will increase over last year.

#### 2. Cash Crops Continue To Develop

The province's total rapeseed production was 26.05 million dan, a 6.1-percent increase over last year. With the exception of cotton production, which

declined due to reduced area and limited production of jute and ambari hemp, yields of ramie, flue-cured tobacco, tea and citrus all surpassed last year's levels.

### 3. Animal Husbandry Grew Steadily

A pillar of Sichuan's rural economy, animal husbandry experienced new growth this year on the foundation of significant development in recent years. At the end of June, the province had 62.05 million hogs in inventory and 20.81 million fattened hogs removed from inventory, increases of 3.6 and 16.4 percent, respectively, over the same period last year. There was continued development in large stock and poultry, and aquaculture also grew quite rapidly.

### 4. Town and Township Enterprises Have Reached a New Stage of Development

As of this year, the various levels of party committees and government are paying increased attention to the development of town and township enterprises, and, based on actual conditions, policies and measures have been added to encourage their development. As of August, the province's township and town enterprises had a cumulative total output value of 10.98 billion yuan, and cumulative total income of 9.43 billion yuan; increases of 27.8 and 29.8 percent, respectively, over the same period last year. Township and town enterprises, scattered all over the province, have made a positive contribution to enriching Sichuan's rural economy.

Because of the overall growth in the rural economy, this year the province's total agricultural output value will certainly increase, and there will be a clear rise in peasant income as well. According to a sampling survey of the province's rural brigades, in the first half of this year alone the per capita cash income of peasants increased 8.7 percent over the same period last year.

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## AGRICULTURE

### RURAL DIRECTOR ON THEORETICAL STUDY REFORM

HK050839 Beijing NONGMIN RIBAO in Chinese 17 Dec 86 p 1

[Report by Tang Chenglin (0781 2052 2651) and Tang Hai (0781 3189): "Comrade Du Runsheng Stresses at China Agricultural Economics Society Meeting that Agricultural Economic Theoretical Studies Need Reforming"]

[Text] At the 3d Congress of the China Agricultural Economics Society, Du Runsheng, director of the Rural Policy Research Center of the CPC Central Committee Secretariat and the State Council Rural Development Research Center said that agricultural economic theoretical study is scientific exploratory work and that they need reforming.

He said: For a long time past, agricultural economic theoretical studies merely focused on giving explanations as to how relevant policies should be implemented. Theoretical studies have broken away from such limitation since the 3d Plenary Session of the 11th CPC Central Committee, and large number of good articles and good study results have appeared over the last few years. In many aspects, however, these articles and study results still describe phenomena; no standard theory for the Chinese agricultural economy has been formed.

To do a good job in the reform of theoretical research work, an environment should be created in which everyone can speak sincerely and carry out free discussions, a hundred schools of thoughts contend, and a hundred flowers blossom. Those who have good ideas should be encouraged to air their views.

Research work should be linked with the outside world. Many new achievements and experiences have been gained in the sphere of world social sciences since the establishment of Marxism over a hundred years ago. These achievements and experiences are the common property of mankind. We should be good at critically absorbing these achievements and experiences and at rationally using information and knowledge of social sciences.

He added: It is necessary to study natural science research methods, to make suppositions on problems, and to keep testing and verifying our systematic study. The testing and verification of our systematic study should be carried out repeatedly, in many fields, on many subjects, and by comparing negative with positive examples, as well as domestic with international experiences.

Conclusions should not be drawn in a simple way. Policies worked out on a nonscientific basis will result in setbacks, therefore the testing and verification of policies must be thorough-going.

Comrade Du Runsheng stressed: Our research work should tally with reforms. Reforms are proceeding more profoundly. This is an excellent opportunity for theoretical research development. Missing this opportunity means missing an epoch. We must seize this opportunity, exert ourselves, and engage in creative explorations. There are many difficulties in reforms, but reforms remain irreversible. These difficulties are from contradictions with the old system. It is necessary to regulate the interests in various fields of society. In addition, when reform just started, there was little room or choice for the study of problems, because the national economy was then on the brink of collapse. This has made it even more important for us to strengthen our research work so that we can make the most rational, optimal, and satisfactory choice.

Experiments in natural science require laboratories, as do experiments in social sciences. Select an experimental area where leaders, the masses, and scientific workers can join their efforts and test their subjective suppositions in practice.

Comrade Du Runsheng pointed out: Agricultural economics is a comprehensive branch of science in China. We will study the countryside from the angle of the entire national economy. Agriculture is a branch of the national economy. If the study of the countryside and agriculture is divorced from the national economy, it will be very difficult to understand the true features in the rural economy. Industry and agriculture will fall into an integral whole with the formation of a domestic commodity economic market. In such cases, the spheres of study should not be separate from each other, as references in various aspects are linked with each other. Whether or not our scientific research into the agricultural economy can make contributions to resolving agricultural problems in developing countries depends on whether or not it can resolve China's own theoretical and practical problems.

He hoped that this congress can become a new point of departure for reform of scientific research into the agricultural economy and that a contingent will be formed to bring the role of this research into play in this great era of reform.

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## AGRIGULTURE

### HOG PRODUCTION, SALES IN THIRD QUARTER FORECAST

Beijing NONGCUN JINGYING BAO in Chinese 27 Sep 86 p 4

[Article by the Foodstuff Bureau of the Ministry of Commerce: "Forecast of Third-Quarter Live Hog Production and Sales"]

[Text] In May of this year, 203 counties in the 12 key hog-producing provinces of Hebei, Shanxi, Jiangsu, Zhejiang, Anhui, Jiangxi, Shandong, Henan, Hubei, Hunan, Sichuan, and Shaanxi surveyed and forecast trends in the production and sale of hogs. A summary follows.

I. Live Hog Production Rising Steadily: At the end of May this year the 203 counties had a total live hog inventory of 56.81 million animals, an increase of 2.44 million, or 4.5 percent, over the same period last year. Of this, there were 3.98 million boars and sows in inventory, an increase of 80,000, or 2.1 percent, over the same period last year; this accounts for 7 percent of the total inventory, which is basically the same as for the same period last year. There were 43.94 million fattening pigs in inventory, an increase of 1.72 million, or 4.1 percent, over the same period last year. Among fattening pigs in inventory, heavy pigs over 75 kilos showed the greatest increase over the same period last year, up 12 to 13 percent; they were followed by medium porkers over 50 kilos, up 6 to 8 percent. Pigs under 50 kilos increased slightly over the same period last year. The composition of the inventory of fattening pigs was mostly heavy pigs, followed by medium porkers, with fewer light porkers.

In terms of total inventory of live hogs at the end of May by province, there was a steady increase in the seven provinces of Jiangsu, Jiangxi, Hubei, Hunan, Zhejiang, Hebei, and Sichuan; there were slight declines in Shanxi, Shandong, Shaanxi, Anhui, and Henan.

The first reason for the steady rise in hog production is the policy of decontrolling pig farming, which mobilized enthusiasm for raising pigs. Because of decontrol of purchase and sale prices for hogs last year, purchase prices rose sharply, increasing the benefits of pig farming and giving pig-raising families the feeling that raising pigs pays off, thus promoting the development of pig farming. Second, leadership departments at all levels are paying close attention to pig farming and adopting a number of measures that have also stabilized the morale of pig-raising families. Third, in many

areas people state that after the spring, when circulation is sluggish, purchase prices for hogs continue to decline, thus affecting the normal removal of animals from inventory and causing a backward trend in the number of meat-type hogs being removed from inventory, leading to the current large number of heavy pigs and the small number of light porkers.

Although hog production is currently increasing somewhat, most counties report that there are still unstable factors, primarily in the following areas. First, the hike in grain prices at country fairs is still showing no downward trend, whereas purchase prices for hogs are slipping down, directly affecting the returns from pig farming. Second, the price of piglets has slipped, reducing the returns from keeping sows, which is unfavorable to the development of pig farming. Third, some areas report that the state's awarding of grain sales at parity to pig-raising households sometimes cannot be lived up to in practice, and criteria change greatly. These unfavorable factors will decline or increase depending on the magnitude of this year's harvest.

II. Forecast of Third Quarter Hog Supplies: According to reports from the 203 counties, at the end of May there were 43.94 million fattening hogs in inventory; of this number, 14.6 million were heavy pigs over 50 kilos, an 18.9-percent increase over the end of February and a 9.2-percent increase over the same period last year. This shows that this year the basis for removing meat-type hogs from inventory in the third quarter is quite good. It is forecast that 8.32 million meat-type hogs will be removed from inventory in the third quarter, a 10.3-percent increase over the same period last year; 4.67 million will be sold, a 22.3-percent increase over the same period last year. The proportion of purchases by state-run businesses will rise from 50.5 percent for the same period last year to 56.2 percent; 1.97 million hogs will be sold, a 19.4-percent increase over the same period last year; 2.68 million hogs will be shipped out of their county, a 14-percent increase over the same period last year; 3.65 million hogs will be slaughtered and marketed by farmers themselves, a 1.9-percent decline from the same period last year. According to the above statistics, 770,000 additional hogs will be taken out of inventory; of these, 850,000 additional will be purchased by state-run businesses, whereas the number of hogs slaughtered by farmers themselves will decline. By province, the situation is as follows: there will be overall increases in animals removed from inventory, purchased, and shipped out; the increase in animals removed from inventory will be between 3 and 24 percent. The increase in purchases will vary greatly from region to region; in Zhejiang, for example, it will be 67.3 percent; Shaanxi will see the lowest increase, only 1.4 percent. Sichuan will have the greatest increase in hogs shipped out, 65.6 percent, whereas for Shanxi the increase will be only 0.8 percent. As for sales, Shanxi, Henan, and Shaanxi will see declines, but the remaining nine provinces will have increases, with Jiangxi having the greatest at 64 percent. Hubei and Sichuan will have the smallest increase, around 7 percent.

The third quarter is the slack season for purchase and sale of hogs, but according to the regional reports this year's third quarter will not be as slack as in previous years; supplies will be fairly even, with a good basis. Everyone believes that there will be no problem with market supplies for the National Day and Midautumn holidays. It is forecast that the market will be quite brisk, and the overall situation will be better than last year.

## AGRICULTURE

### AQUATIC PRODUCTION UP, PRICES DOWN

Beijing ZHONGGUO SHANGYE BAO in Chinese 11 Sep 86 p 3

[Unattributed article: "Aquatic Products Increase in Output and Sales, Prices Tend Steadily Downward; Total Output Value of 8 Million Tons Forecast This Year, 13 Percent Increase Over Last Year"]

[Text] According to information from the China United Aquaculture, in the first half of this year China's aquaculture output is again undergoing a major increase on the basis of last year's large increase. According to statistics, in the first half of the year output of aquatic products reached 3,056,000 tons, an increase of 523,000 tons, or 21 percent, over the same period last year; of this, marine catches amounted to 1,726,000 tons, marine fish farming accounted for 220,000 tons, freshwater fish farming yielded 905,000 tons, and freshwater fishing produced 204,000 tons, which represent increases of 19, 13, 32.5, and 3 percent, respectively, over the same period last year. Guangdong had the highest rate of growth, followed by Liaoning and Shandong.

This great increase in aquatic products has caused a brisk market, with lively buying and selling. According to statistics, from January to June of this year net sales of high-grade saltwater fish increased by 51 percent over the same period last year; of this, yellow croaker increased by 25 percent, cutlass fish by 101 percent, and black scraper by 123 percent; saltwater fish are selling better than freshwater fish, and prices are better for fresh fish than for frozen. By region, prices are up and down: in Tianjin, prices for yellow croaker and pomfret are up about 15 percent over the same period last year, whereas prices for bayu [1572 7625] and Japanese mackerel are holding steady; in Fushun, prices for high-grade fish are up 15 to 18 percent over the same period last year; in Guangzhou, prices for freshwater fish are down 10 to 20 percent from the same period last year.

In the second half of the year the trend in aquatic production is still good. Production of saltwater fish now with autumn flood-lamp encirclement is good, and freshwater fish production will be entering its peak season; unless special circumstances arise, it is forecast that the total output value of aquaculture this year will reach 8 million tons, an increase of about 13 percent over last year. Supplies are increasing, and prices are tending steadily downward.

## AGRICULTURE

### HUANG HE SOIL EROSION BEING CONTROLLED

OW160359 Beijing XINHUA in English 0139 GMT 16 Dec 86

[Text] Xian, December 16 (XINHUA)--China has been redoubling its efforts to conserve water and soil on the middle and upper reaches of the Yellow River, once known as "China's sorrow."

Yang Zhenhuan, vice-minister of water resources and electric power, said at a meeting on soil erosion held here recently, "Over the past five years, control of soil erosion on the middle and upper reaches of the Yellow River has been steady and seen the best results since the founding of new China."

The middle and upper reaches of the 5,464 km Yellow River, the second-longest in China, include 306 counties in seven provinces and autonomous regions in north and northwest China, and cover an area of 598,000 sq km. It is one of the areas in the world where soil erosion is most serious, and also the source of the enormous amount of silt in the river.

The meeting was told that over the past five years, China has doubled its speed and harnessed 27,000 sq km on the middle and upper reaches of the river, bringing the total to 102,600 sq km, 23 percent of the 430,000 sq km subject to soil erosion.

Zhang said it is unprecedented that the mud and sand washed into the Yellow River has dropped by an annual average of 200 million tons over the past 15 years, as against the previous 20 years. This makes up 16 percent of the sand the river carries annually, he added.

The meeting attributed the achievements to new forms and measures of soil erosion control, such as contracting wasteland to local peasants and setting up key harnessing areas, as well as more government allocations.

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CSO: 4020/79



## AGRICULTURE

### SOLVING FUJIAN'S GRAIN PROBLEM

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 7, 5 Jul 86 pp 43-45

[Article by Wang Zhiqin [3769 1807 0530] and Wang Yang [3769 0111] of the Fujian Provincial Pricing Institute: "The Crux of the Grain Problem in Fujian and How To Deal With It"]

[Text] Just what is the crux of the grain problem in Fujian? We recently conducted an investigation in several areas of the province, came in contact with a great number of facts, and have come up with a preliminary view on how to resolve Fujian's grain problem.

#### A. Major Factors Influencing Grain Production

1. The one-sidedness of guiding ideology. Grain output has increased year after year in Fujian the past several years; as a result of this welcome situation, some comrades feel that "Fujian can disregard the grain burden," "Grain no longer presents a problem; so long as money is available anything can be arranged," etc. As a result, guidance with respect to grain production has become a degree more relaxed.
2. The pace of readjusting the agricultural structure was too swift, which brought about a reduction in the tax on grain acreage. The total area of land sown to farm crops in 1985 was 5,487,000 mu less than in 1978; the area sown to grain crops amounted to 28.32 million mu, which was 1,935,000 mu less than the 1984 total, which itself was 1,010,000 mu less than the year before. Figured at the 1984 average output of 562 jin per mu, the grain harvest will be 1,087,000,000 jin less than that year.
3. Grain prices tend to be low, which impacts on the peasants' motivation to grow grain. Many peasants have put their land, funds, and labor into growing cash crops. Furthermore, all the fields which have been converted from grain to cash crops are ones with fertile soil and plenty of sunshine. With respect to growing grain, the peasants embrace an "enough to eat" mentality, are unwilling to expend more effort, and the able bodied are engaging in economic diversification, so only the "603861 unit" (the elderly, the wives, and the children) is growing grain. At the same time, they are unwilling to invest labor and fertilizer in the grain fields, and have turned from intensive and meticulous cultivation to careless and crude farming practices.

4. Essentially little has been invested in farmland capital construction, and water conservancy projects have been neglected for years. For the past several years, the cropland acreage provincewide being effectively irrigated has continually been decreasing. There were 12.06 million mu of such irrigated land in 1984, or 62.8 percent of the land under cultivation at the end of the year, which was 1.16 million mu less than in 1980, a 5.5 percent drop.

5. Agricultural production services cannot keep pace. The supply and marketing cooperatives have assumed sole responsibility for their profits and losses, and they are incapable of stocking large quantities of farm chemicals and fertilizers to supply to the peasants when an urgent need arises. At the same time, the channels of circulation are obstructed and the peasants are experiencing difficulties in selling their grain.

#### B. Low Grain Prices Key Factor Influencing Grain Production

1. After implementing the system of contracting for the purchase of set quotas, the grain farmers are experiencing reduced income as a result of policy. The overall average price of paddy in Jianyang Prefecture in 1983 was 16.81 yuan per dan, and in 1984 was 15.96 yuan. In 1985, with the implementation of the inverse 3:7 pricing ratio, the average price was 15.9 yuan; prefecturewide income was 9.63 million yuan less than in 1983, and 700,000 yuan less than in 1984. In terms of the whole country and the whole province, implementing the inverse 3:7 pricing ratio resulted in increased incomes for farmers growing grain; income increased 34.35 million yuan provincewide compared to 1984. However, in prefectures where the more commercial grain that is supplied, the less the income for the specialized households, a situation arises that is bound to have an impact on the grain farmers motivation to produce.

2. Prices for the means of production have risen, and costs have increased. In 1984, the average price for various chemical fertilizers rose 22 percent provincewide; this alone increased the peasants' expenditures 55 million yuan. Based on delivery prices for counties and cities along the railway line in Jianyang Prefecture (not including price increases for farm implements and higher interest on farm loans), expenditures provincewide increased 12,443,500 yuan; grain costs increased 0.42 yuan per dan, or an average of 6.12 yuan per capita for the farm population. At the same time, in 1984 the state abolished financial subsidies for circulation costs for agricultural materials such as chemical fertilizers (a subsidy which previously amounted to more than 800,000 yuan per year); this increased regional price differences, and as transport distances increased, circulation costs and prices rose. Ammonium carbonate cost 240 yuan per ton in Pucheng County, which was 50 yuan higher than for the counties and cities along the railway lines.

3. The comparative prices between grain and other cash crop products is irrational. In the past, under the system of centralized buying and selling of farm products, although the prices of some classes of farm products were higher than for others, still the differences were not all that great. After abolition of centralized buying and selling, the prices of the vast majority

of farm products increased more than expected, but planned prices essentially continued to be applied to grain. As a result, the relative disparity between grain and other farm products became greater. Statistics on 11 major farm products in Jian'ou County comparing the average price for actual transactions through major business channels in 1985 with the 1978 purchasing price show that the smallest increase was for grain (upland rice, for example), which rose only 63.2 percent. On the other hand, prices for oranges, tangerines, Xianggu mushrooms, and dried bamboo shoots increased 100 to 200 percent or more. The net output value per man-day for growing grain was 4.24 yuan, and 9.93 yuan for growing lotus seeds; the income from dealing in dried bamboo shoots, Xianggu mushrooms, and timber was substantial as well, and the return from fish farming was even higher. Based on a survey in Songxi County, the output value per man-day invested was: paddy, 5.37 yuan; peanuts, 10.14 yuan; lotus seeds, 13.5 yuan; fish farming, 13.6 yuan; watermelons, 16.26 yuan; and jasmine flowers, 29.95 yuan.

### C. Major Short-Term Countermeasures

1. Increase extra-price subsidies, and make grain growing profitable for the peasants. At the present time, for each county which ships out more than 100 million jin of grain, the provincial government pays a subsidy of 3 yuan per 100 jin (which includes 1 yuan paid by regions to which grain is shipped). This plays a definite motivating role for expanding grain production. The problem is that it is still difficult to reverse the situation where the cash income of the peasants who grow grain is poor compared to that of those who grow cash crops. As a result, if we do not adopt special policies, it will be very difficult to block the tendency of the peasants spontaneously to "turn from grain to cash crops." Grain sales by the farming villages made up 33.5 percent of total grain sales in the urban and rural areas throughout the province in 1984. Peasants in the grain-producing regions urgently request that the regions which have grain shipped in pay a little more toward subsidies, with such payments to be allotted from their return on cash crops; specifically, that over and above the base "3:7 price" for contracts for fixed-quota purchases be added an extra-price subsidy exceeding 20 yuan per dan (at present it is 18.7 yuan). In addition to the fixed-quota purchase base, we should implement a negotiated price policy and permit selling according to what the market will bear to increase the grain farmers' income, and to motivate the regions which ship out commercial grain, and the grain farmers, to produce more.

2. Improve the system of contracting for fixed-quota purchases; change assigned procurement in a way which serves production and which benefits both the government and the commercial firms. The central government's changing from centralized procurement of grain to contracting for the purchase of fixed quotas last year came at just the right moment, but since time was of the essence, and since we lacked experience, problems have cropped up as a result of implementing that system, and the amount of such contracted purchases was rather large. Furthermore, uniformly implementing the "inverse 3:7" pricing ratio over the entire country, did not accord with the reality of the various

localities, insomuch as it caused the long-standing grain-producing regions to feel it advantageous to vie for contracts, while the newer grain-producing regions (or areas added to the fixed-quota grain purchase base) felt they were getting the worst of it and did not want to sign contracts. As a result, it is necessary to stabilize the fixed-quota purchase contracting base, where quantities in excess of the base will be purchased at negotiated prices. Simultaneous with this, we must change the system of assigned procurement such that both the government and the commercial firms fulfill their contract obligations, and use an approach where negotiations regarding fixed-quota purchases are in the interests of both parties. In the case of previous contract purchases, the peasants were under a contractual obligation to sell grain at the set prices, while the state was under no obligation, which in essence was about the same as centralized procurement. As a result, it is necessary for the state to employ such forms of subsidies as "linking grain and materials," "linking grain and fertilizer," and "linking grain and money," to bring material benefits to the peasants.

3. Strive to exploit land from the mountains and the sea, and actively and safely readjust the rural industrial structure. It is essential in readjusting the rural industrial structure that it be carried out in accordance with the principle of suiting measures to local conditions; it is not enough solely to write articles on cultivation, but we must come up with a plan for reducing grain acreage. We must root our approach on exploiting the strengths of the mountains and the sea; we must fully utilize the vast lowlands, hills, mountains, beaches, shallows, and the sea itself. We must devote major efforts to expanding cash crops, the aquatics breeding industry, animal husbandry, and the industry processing agricultural products, as practice proves that this also is well worth doing. Fujian is a province short on grain, so when readjusting the grain-cash crop mix, we certainly must plan as a whole by considering our capabilities with respect to the production, purchasing, transport, and sale of grain, as well as our financial situation. We must try hard to stabilize grain acreage and actively increase grain output, so that readjustments to the structure will be based on a firm foundation.

4. Pay close attention to transforming medium- and low-yielding fields, and increase unit yields of grain. Medium- and low-yielding fields account for 76 percent of the land devoted to grain in Fujian. Rice field acreage in the mountainous regions amounts to 10.8 million mu provincewide, and the average yield is 822 jin per mu, which is 128 jin lower than the average per mu paddy field yield for the province as a whole. If the unit output of the medium- and low-yielding fields throughout the province could be raised to the average unit-yield level of the rice fields for the province as a whole, gross output would be increased by more than 1 billion jin. In terms of tackling this problem in practice, the increase in yields in demonstration plots amounted to more than 100 jin per mu yearly, and the cumulative total increase for most of the plots was 700 jin over 3 years. Therefore, we must pay attention to the key problem of the medium- and low-yielding fields, and raise the per-mu grain yields as quickly as possible; these will play a decisive role in ensuring steady increases in grain yields in the province, fulfilling the grain-production plan, and promoting the readjusting of the agricultural structure.

5. Implement a policy of industry subsidizing agriculture, and enhance basic construction in agriculture. In recent years, in the wake of carrying out a thorough reform of the rural economic system, there has been a continuous and vigorous expansion of industry, sideline production, and growing of cash crops in the countryside, and we have accumulated a large amount of funds to give impetus to the whole rural economy. However, expansion of the township and town economy is dependent on expansion of agriculture. If agriculture does not make it, all of the various other industries will be affected. Therefore, only by implementing a policy of industry subsidizing agriculture will we be able to guarantee a favorable cycle of expansion of the rural economy. Several areas in Fujian have experienced an expansion of township and town enterprises, and have developed a series of agricultural and sideline products, and afterward utilized funds accumulated by industry to increase agricultural investments, which in turn promoted expansion, and brought about a favorable circulation between agriculture and industry, and a highly beneficial steady development of the rural economy.

In addition, in the macroview, the policy of industry subsidizing agriculture should be characterized by gradual increases in investments for agriculture, which continually improve agricultural production conditions, enhance our ability to withstand natural disasters, and increase the level of agricultural modernization. But in actuality, capital construction investment for agriculture has been decreasing year by year in Fujian, and in 1984 was just 76.68 million yuan, which amounted to only 5.3 percent of total provincewide capital construction investment for the same period, and only one-half the 1980 total capital construction investment for agriculture. This situation in no way matches the position of agriculture in the whole of the national economy, and the government at all levels should treat capital construction for agriculture as an important strategic mission.

6. Gradually reform the rural tax revenue system. The tax system currently in place in rural China is not conducive to encouraging investment in grain production. First, the agricultural tax levied to this point has been limited to farm products, and in reality falls mainly on the grain producers. From now on, we should expand the scope of levying agricultural taxes to include farm and sideline products, along with a corresponding cut in the portion of taxes to be contributed for grain. Second, up to now agricultural taxes have been levied based on gross agricultural income rather than on net income. Although net income from grain production is quite low, the taxes paid on gross income are rather high. From now on, the agricultural taxes levied should be changed so that more taxes are paid on products which bring a high net income, and less taxes are paid on products which bring a low net income. In this way we could lighten the tax burden of the grain producers, increase net income from grain production, and increase the peasants' motivation to produce grain.

7. Enhance investment in knowledge, carry on scientific farming, and arrange for a steady pool of qualified technical personnel. According to statistics, 22.1 percent of the farm labor in the province has at least a junior middle

school education; those with specialties account for 8.1 percent; productive fixed assets of farm households amounts to only 611 yuan; there are only 3.23 people per 10,000 in the rural labor force with a higher level education. These four figures suffice to portray how low the quality of the peasants and the technical equipment level are in Fujian. This inevitably becomes a great obstacle to expanding grain production. Therefore, we must continue to pay attention to rural education, and adopt various approaches and policies to train on a large scale the specialized technical personnel the rural areas so badly need, and to lay a good foundation to make grain production scientific and modern.

8. Pay attention to grain transport, and ensure a supply of grain. Fujian is deficient in grain, and every year must have more than 1 billion jin shipped in. According to forecasts by the relevant departments, by 1990 Fujian's social requirements will amount to 22 billion jin, an increase of approximately 6 billion jin. In other words, in order to become self-sufficient in grain, we must increase output 1.12 billion jin per year during the period of the Seventh 5-Year Plan. This rate of increase will come about only with significant scientific and technical breakthroughs, and by implementing special policies to encourage grain production; otherwise it will be difficult to achieve. Therefore, in addition to paying special attention to grain production, we also must pay special attention to transporting grain. Especially worthy of note is the area of the south Fujian triangle, which every year has a grain shortage of approximately 1.5 to 2.5 billion jin, and must rely on purchasing this grain from outside the area and transporting it in, and so warrants even more serious attention. Since we mainly rely on shipping grain into southern Fujian by sea, we could construct modern docks and warehouses for grain at the ports of Xiamen, Jinzhou, Xiaocuo, and Putian Xiuyu, and organize a special shipping brigade to transport grain in, and to ship out cane sugar, fruits, aquatic products, and special local products.

In addition, we should open up channels, and set up special organizations to be responsible for transporting grain. In terms of policy, we should actively encourage collectives, joint bodies, and individual households to deal in grain, and devote major efforts to supporting grain-producing units inside and outside the province to set up grain businesses and rice markets in Fujian.

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## AGRICULTURE

### HUNAN LEADERS VIEW AGRICULTURAL PRODUCT QUALITY

HK231127 Changsha Hunan Provincial Service in Mandarin 0100 GMT 22 Dec 86

[Excerpts] While visiting the first exhibition of agricultural products of superior quality of our province, leading comrades, including Mao Zhiyong and Xiong Qingquan, stated many important views on further developing agricultural products of superior quality and on developing the rural commodity economy.

1. It is necessary to relax prices to follow the trend of the market. The prices of rice of superior quality and of maize must be relaxed and determined according to their quality. The price of sugar must also be relaxed.
2. It is essential to change traditional processing methods and to develop the market. The technology of preserving the freshness of vegetables has not measured up to the standard and we must organize forces to tackle this problem. We must change the traditional tea processing method. The packaging of famous wines, including (Wuling) wine, is not ideal.
3. It is imperative to strive for an ample supply of fruits in the off seasons and to develop more summer and winter fruits.

All places have some good varieties, which can be developed according to local conditions.

4. According to the needs of the market, we must organize commodity production. The winter season is a good season of our province for agricultural production.
5. We must carry out comprehensive development and increase output value. The aquatic product breeding trade must also develop.

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CSO: 4006/252

## AGRICULTURE

### HUNAN MEETING DISCUSSES RURAL WORK TASKS

HK250257 Changsha Hunan Provincial Service in Mandarin 0100 GMT 25 Dec 86

[Excerpts] A provincial rural work conference, held under the auspices of the Provincial Party Committee and Government, concluded in Changsha yesterday. The meeting fully endorsed the new successes achieved in rural reforms and economic development over the past year, and demanded that in the new year, now imminent, the party committees and government at all levels and the whole body of rural work personnel change their thinking, carry out deep-going reforms, and promote sustained and steady development of the rural economy.

During the meeting, Mao Zhiyong, Liu Fusheng, Wang Zhiguo, (Xie Xingying), and Cao Wenju, leaders of the provincial party and government, studied the documents of the central rural work conference with responsible comrades of the prefectures, cities, and counties, and of provincial organs concerned.

During a forum with some responsible comrades of prefectures and cities, Provincial Party Committee Secretary Mao Zhiyong stressed that the province must continue to implement the principle of actively developing diversification without any slackening of grain production. The grain production performance has a decisive impact on the whole of reform and construction. All levels must assign an important position to grain production.

Vice Governor Cao Wenju delivered a speech at the meeting entitled "Change concepts, carry out reform in depth, and stimulate the development of rural commodity economy."

The meeting held that a good situation of sustained, steady, and coordinated development has appeared in the province's rural economy as a result of implementing central document No 1 of 1986. Compared with last year, agricultural output value may rise by 7 percent, grain output by about 2 percent, and total income of the township and town enterprises by about 30 percent. There is also a big increase in value of agricultural and sideline products procured and in output of industrial crops. Average peasant incomes may rise by 7 percent.

The meeting seriously discussed the provincial party committee's and government's arrangements for next year's rural work. It decided that the main:



tasks in rural work next year are to seriously implement the spirit of the central rural work conference, continue to implement the spirit of the central documents No 1 of recent years, further emancipate the mind, change concepts, deepen the reforms, invigorate circulation, strengthen services, concentrate efforts on developing the productive forces, and make the rural areas prosperous and the peasants well-off.

Agricultural output value should rise by 6 percent, and grain output should reach about 26 billion kg. Total income of the township and town enterprises should increase by 30 percent.

The province must step up family planning work and control population growth. Average peasant incomes should rise by 20 to 30 yuan.

In accordance with this general demand, the meeting made the following rural economic demands for next year: 1) It is necessary to persevere for a long time in readjusting the rural production structure. 2) There must be a great development of township and town enterprises. 3) Great effort must be devoted to invigorating circulation. 4) It is necessary to boost the reserve strength for agricultural development. 5) It is necessary to step up the popularization of agricultural science and technology. 6) We must step up economic development in poor areas. 7) We must perfect and develop the rural cooperative system.

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CSO: 4006/228

## AGRICULTURE

### JILIN: GAO DI ATTENDS PROVINCIAL RURAL WORK CONFERENCE

SK260551 Changchun Jilin Provincial Service in Mandarin 2200 GMT 25 Dec 86

[Excerpts] The provincial rural work conference sponsored by the provincial party committee and the provincial People's Government concluded on 25 December. The conference fully acknowledged the new achievements scored by the province in conducting rural reforms and developing the rural economy in the past year and put forward the general principles of developing the rural economy in 1987, which are to uphold the guideline of conducting penetrating reforms, to increase the volume of materials in the processing industries, to regard the work of accelerating the pace of developing a diversified economy and township- and town-run enterprises as a strategic emphasis of the rural work on the basis of maintaining a stable increase in grain production, to promote harmonious development among various undertakings in the rural areas, and to upgrade in an all-round way the standard of the rural commodity economy.

During the conference, Gao Di, secretary of the provincial party committee, and Gao Dezhan, governor of the province, delivered speeches on the crucial issues of developing the commodity economy in the rural areas throughout the province. Wang Jinshan, vice governor of the province, delivered summing-up report.

The conference made arrangements for rural work in 1987 in the following seven aspects:

1. Continuous efforts should be made to conduct reforms in the systems of grain purchase and sales and to improve the contracting system on grain purchase.
2. Efforts should be made to adopt the policy of assistance, to encourage peasants to develop a diversified economy, to develop the diversified economy with high speed, and to actively readjust the production structure.
3. A good job should be done in earnestly conducting reforms in commodity circulation and organizing peasants to join in the market business.
4. Efforts should be made to enliven the financial markets in the rural areas and to adopt various channels for circulation of funds.

5. Efforts should be made to further improve the responsibility systems in various fields.

6. Efforts should be made to develop economic associations and to conduct coexistence among various economic component parts.

7. Efforts should be made to improve the financial system at the township level and to continuously do a good job in conducting the pilot work of conducting reforms in the system in a comprehensive way.

The conference pointed out: To catch up as soon as possible with fraternal provinces that are advanced in developing the economy, our province must do away with the unitary, closed, and low-efficiency commodity circulation and concentrate on establishing township- and town-run enterprises and developing a diversified economy on the basis of scoring a stable increase in grain production.

The conference pointed out: To achieve a rapid development of the commodity economy, it is essential for the province to depend on policy on the one hand and on science on the other.

The conference also urged the party committees at all levels in the rural areas to successfully grasp the construction of spiritual civilization while building the material civilization. At present, attention should be paid to successfully doing away with the outdated habits in the rural areas, the lingering feudalist influence and the influence of narrow ideas of petty production.

The conference urged the party committees and the People's Governments at all levels to further enhance their leadership over the rural work, to improve their work style, to heighten their spirit, to lead peasants to uphold the principle of conducting reforms and pioneering a road of advance so as to enable the rural areas throughout the province to become wealthy as soon as possible.

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CSO: 4006/228

## AGRICULTURE

### RATIONAL UTILIZATION OF SHANDONG PROVINCE'S LAND RESOURCES

Dalian ZIRAN ZIYUAN [NATURAL RESOURCES] in Chinese No 2, Jun 86 pp 1-8

[Article by Li Yongchang [2621 3057 2490], Jiang Weiran [5592 5588 3544], and Li Shiguang [2621 0013 0342] of Shandong Agricultural University; Qian Jiaxiao [6929 1367 7522] of Liaocheng Agricultural School; Ren Xitang [0117 1585 1016] of Beizhen Agricultural School; He Tongbin [0149 0681 6333] of Tai'an Agricultural School; and Yang Yanfan [2799 1693 5672] of Laiyang Agricultural College]

[Abstract] Since the liberation, the extent of Shandong's cultivated land was reduced by 30 million mu. Crudely calculated, the annual reduction of the cultivated land is about 800,000 mu, while the annual population increase is about 800,000. By the year 2000, it is estimated that the figure of 90 million will hold for both population and mu of area. Some land has deteriorated by way of salinization, water and soil erosion, and pollution, among other aspects. As to farmland utilization, for a long time more than 70 percent of the cultivated land has been used for cereal grain production. Land resources were damaged to some extent with erosion in the hilly region and with salinization in the Huang He floodplain. The damage to land resources has been eased somewhat since 1980. The authors propose to relieve the pressure on cultivating cereal grain by raising the index of multiple harvests and the percentage of cultivated land. Fishery and animal husbandry should be developed to add to variety of food sources.

One figure shows the land classification in Shandong Province. Six tables show the factors constraining, and statistics for the land resources, proportions of cultivated and uncultivated land, areas of arable and other land, changes in the cultivated area, and fertility of the cultivated land.

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CSO: 4011/07

## AGRICULTURE

### XINJIANG LIVESTOCK WORK CONFERENCE ENDS

HK240839 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 22 Dec 86

[Excerpts] The regional conference on livestock work which concluded today proposed that the key point of livestock production in our region next year should be to improve pastoral areas, to develop rural areas, to raise the level of modern and direct urban communications to promote livestock production, to do well in grazing livestock, to encourage rural areas and suburbs of urban areas to breed livestock so as to increase output of livestock products, to improve their quality, and to meet the increasing needs of the urban and rural markets in products including meat, milks and eggs.

To improve pastoral areas is to improve the conditions of pastoral areas for production and livelihood, to change their backward modes and methods of production, to update herdmen's traditional concept of small-scale production, and to arm animal husbandry with advanced science, technology, and management technology so as to modernize and commercialize the animal husbandry of pastoral areas.

To develop rural areas is to make rural areas treat animal husbandry in the same way as pastoral areas and to give full play to the strong points of plentiful arable land and agricultural and sideline products and of mild climate in rural areas so as to vigorously develop animal husbandry, with households taking the lead in developing livestock production.

To raise the level of urban communications is to strive to raise the level of modern and direct urban communications to promote livestock production, to increase the output of products, to improve their quality, and to raise economic results.

The conference stressed: Next year, pastoral areas must step up capital construction of animal husbandry, including the building of grassland, forage grass bases, and drinking water facilities, and urban construction. It is necessary to continuously do well in improving the breeds of sheep and oxen and in controlling breeding stock and to increase the number of livestock. It is essential to regard the processing and utilization of forage, feed concentrates, and roughage feed as a key point and to vigorously popularize feed concentrates, roughage feed, and ammoniated feed. Regional party committee Deputy Secretary Li Shoushan attended the conference and spoke.

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CSO: 4006/252

## AGRICULTURE

### XINJIANG: SONG HANLIANG EXAMINES AGRICULTURAL PRODUCTION

HK240854 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 21 Dec 86

[Excerpts] From 17 to 19 December, regional party committee Secretary Song Hanliang carried out investigations in various places, including Hutubi, Changji, and Miquan, and together with cadres and the masses from these localities, explored the problems of further developing agricultural and livestock production and setting up township enterprises. In the course of the investigations, Comrade Song Hanliang visited some township enterprises, [words indistinct] collective enterprises, and peasant families.

Due to the readjustment of the grain variety and [words indistinct], Changji Hui Autonomous Prefecture's gross grain output this year has reached 960 million jin, its per-mu yield about 400 jin, and each person has had an average of some 1,000 jin of grain. In view of this, Song Hanliang said: Changji is one of the grain bases of North Xinjiang and as it is near Urumqi, it has very great potential for developing grain production. It must work hard to increase its per-mu yield. Comrade Song Hanliang also reported some new plans for, and his views on the problems of, how to give play to the strong points of local resources, how to select [words indistinct] items, how to combine trade, market, industry, and agriculture, and how to develop township enterprises.

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CSO: 4006/228

## AGRICULTURE

### YUNNAN URGES VIGOROUSLY DEVELOPING AGRICULTURE

HK261456 Kunming Yunnan Provincial Service in Mandarin 2300 GMT 25 Dec 86

[Text] The provincial planning conference that recently concluded in Kunming put forward: In 1987, all people throughout our province must rally their forces, vigorously engage in agriculture, and reap a bumper agricultural harvest with output of grain returning to the 20 billion jin level of 1984. To achieve the target of struggle--gross grain output of 20 billion jin--of our whole province, we must stress grasping the following four aspects of work next year:

1. We must further perfect the system of ordering grain by contract, suitably reduce the tasks of ordering grain by contract, and expand the tasks of negotiated purchase so that peasants can increase income from the sale of grain at a negotiated price. At the same time, we must do well in supplying chemical fertilizers of superior quality at a low price and diesel oil [words indistinct] and take measures to make up losses of income from agriculture with income from industry and to make up deficiency in grain with industrial crops.
2. It is necessary to increase funds and materials, which must be mainly used to [words indistinct] to build the bases of breeding stock and breeding poultry, to establish the system of providing service, and subsidize the harnessing the big rivers and the building of large and medium-sized water conservancy projects.
3. It is essential to speed up popularizing eight big scientific and technological measures--popularizing superior seeds, cultivating seedlings by plastic sheets [words indistinct] standard cultivation, scientific manure application, soil reform, prevention and treatment of plant diseases and insect pests, and holding back water for irrigation.
4. Centered on the commodity grain bases, it is imperative to do will in grasping the building of water conservancy facilities.

The conference stressed: Under the premise of guaranteeing a steady increase in grain production, we must adhere to the principle of taking measures that are suitable for local conditions, give play to strong points, continue to readjust the rural production structure, and speed up the development of diversification.

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CSO: 4006/228

## AGRICULTURE

### BRIEFS

REGIONAL ECONOMIC COOPERATION--Kunming, 12 Nov (XINHUA)--A cooperative society was set up in Xishuangbanna on 11 November between Sichuan, Yunnan, Guizhou, Guangxi, and Chongqing to tap and utilize resources in topical and subtropical zones. With stress on developing and utilizing tropical cash crops, these 5 localities have already forged cooperation in 73 items, such as seed improvement, packaging, shipping, and processing of crops, and personnel training. Cooperation will definitely accelerate the exploitation of resources in tropical and subtropical zones in China. [Summary] [Beijing XINHUA Domestic Service in Chinese 0831 GMT 12 Nov 86 OW] /8918

HEILONGJIANG RICE PURCHASES--As of 15 December 1986, Heilongjiang Province had put 903.633 kg of paddy rice in storage, overfulfilling the annual paddy rice contract purchasing task by 8.5 percent. An increase of approximately 200 million kg of paddy rice was put in storage over the record year of 1985. [Excerpts] [Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 21 Dec 86 SK] /8918

XINJIANG ENLARGES CROP AREA--Since rural production structure readjustment in 1978, Xinjiang Region's industrial crops area has accounted for 24 percent of the total sown area, and ranked first among the provinces, municipalities, and regions in our whole country. The major enlarged industrial crops area has been sown with cotton, oil-bearing crops, and beet. Over the past 8 years, the cotton sown area has been enlarged by a yearly average of 240,000 mu, from 2.26 million mu in 1978 to 4.18 million mu this year. Total oil-bearing crops area has been enlarged by an average of 230,000 mu each year and has reached 4.83 million mu. The sown area of beet has been enlarged from 270,000 mu to 380,000 mu. The agricultural output value increased from 1,868 million yuan in 1978 to 3,642 million yuan in 1985, and the annual average increase was 222 million yuan. Each person in the whole region has had an average of 14 kg and 25 kg of cotton and oil-bearing crops respectively, ranking first among all provinces and municipalities in our whole country. Peasants' annual per capita net income increased from 85 yuan in 1978 to 394 yuan in 1985, an increase of 3.6 times. [Summary] [Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 21 Dec 86 HK] /8918

LAND RESOURCE SURVEY RESULTS--Beijing, 16 Dec (XINHUA)--China has achieved substantial results in a general survey of natural resources. Some 33,000 papers and reports in this connection have been put forward by survey teams



organized by the 30-year old Committee for General Survey of Natural Resources. Through general surveys, about 530 million mu of uncultivated arable land has become one of China's bases for agricultural development. Suggestions for grazing on 5.3 billion mu of grassland, made on the basis of survey and study of China's development of animal husbandry, has become an important reference for such development in Xinjiang and Nei Monggol. [Summary] [Beijing XINHUA Domestic Service in Chinese 1223 GMT 16 Dec 86 OW] /8918

JIANGSU PEANUT PURCHASING--As of 27 November, Jiangsu province had purchased 75 million kilograms of peanuts, exceeding the annual plan by 17 million kilograms, and an increase of 29,900,000 kilograms over the same period last year; 2,020,000 mu have been sown to peanuts in the province. [Excerpts] [Nanjing XINHUA RIBAO in Chinese 27 Nov 86 p 1]

ANHUI SILKWORM OUTPUT--This year the gross output of silkworm cocoons in Anhui province will reach 192,000 dan, a more than 10 percent increase over last year. [Excerpt] [Hefei ANHUI RIBAO in Chinese 3 Dec 86 p 1]

JUTE, AMBARI HEMP OUTPUT--Based on statistics, this year the area sown to jute and ambari hemp in Anhui province was 1,110,000 mu, and gross output may reach 155,000 tons. [Excerpt] [Hefei ANHUI RIBAO in Chinese 3 Dec 86 p 1]

SHANDONG FARM, SIDELINE PRODUCTION--To ensure sustained and stable development in the production of farm and sideline products, this year the province has arranged to build 72 farm and sideline production bases in 65 counties, cities, and districts. Thus far, the construction of these bases is in full swing. Among these farm and sideline production bases, 45 are grain production bases, 12 fine quality cotton production bases, 4 quality fruit production bases, 2 peanut production bases, 1 garlic production base, 4 lean-pork hog raising bases, 3 sheep wool production bases, and 1 multiple-producing base. The total investment in the production of these bases is more than 100 million yuan. So far, specific plans to build these bases have been set and most are under construction. It is expected that these production bases will be completed within 3 years. Upon completion of the grain production bases, the output of marketable grain will increase by more than 500 kg every year. [Text] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 28 Dec 86 SK] /6662

FISH PRODUCTION INCREASE--Beijing, 20 Nov (XINHUA)--China expects an aquatic products output of 8 million tons this year, up 13 percent over 1985, an official of the Ministry of Agriculture, Animal Husbandry, and Fisheries said here today. The fresh water catch went up 30 percent, and increases were seen in marine-raised prawn, clam, and abalone. During the winter and spring period, China dug 160,000 hectares of new fish-raising ponds and improved 312,000 hectares of existing ones. Some 800,000 hectares of paddy fields are now being used to raise fish. Six marine fishery companies are cooperating with seven foreign countries to catch fish in their fishing waters. [Text] [Beijing XINHUA in English 1526 GMT 20 Nov 86 OW] /8309

FRUIT PRODUCTION RECORD--Beijing, 5 Dec (XINHUA)--China's fruit growing area this year will reach a record 3.6 million hectares, and the fruit crop will reach 13 million tons, an all-time high. The fruit growing area is expected to reach 4 million hectares and the fruit output 26.6 million tons by 1990, with an annual average of 20 kilograms per person. [Text] [Beijing XINHUA in English 0305 GMT 5 Dec 86 OW] /8309

GANSU GRAIN OUTPUT--This year the gross output of grain in Gansu Province will be 5,513,000 tons, an increase of 3.91 percent over last year. [Excerpt] [Harbin HEILONGJIANG RIBAO in Chinese 6 Dec 86 p 1]

CHEMICAL FERTILIZER OUTPUT--The Chemical Industry Ministry has determined the 1987 fertilizer production task, planned output of chemical fertilizer in 1987 is 72 million tons, an increase of 9 percent over 1986. As of 20 November 1986, China had produced 59,440,000 tons of chemical fertilizer, accounting for 93.6 percent of the annual plan. [Excerpt] [Beijing JINGJI RIBAO in Chinese 26 Nov 86 p 1]

SICHUAN CITRUS FRUIT EXPORTS--As of 12 December, Sichuan had exported more than 13,980 tons of citrus fruit to the Soviet Union, Korea, and Mongolia, fulfilling the annual export plan. [Excerpt] [Chengdu SICHUAN RIBAO in Chinese 18 Dec 86 p 1]

FARM MACHINERY SALES--Beijing, 5 Dec (XINHUA)--The 1987 national order meeting of agricultural machinery which ended recently saw the value of orders decline to 9.3 billion yuan. That's a drop of 12.5 percent from the 1986 meeting. Over 27,800 large and medium-sized tractors were ordered, a drop of 34.5 percent from last year, but 881,250 small tractors were ordered, an increase of 21.3 percent. The orders of internal-combustion engines, farm vehicles and tillage machinery increased 6.1 percent, 36.6 percent and 51.4 percent, respectively. [Text] [Beijing XINHUA in English 0306 GMT 5 Dec 86 OW] /8309

TOBACCO, CIGARETTE EXPORTS EXCEED TARGET--Beijing, December 16 (XINHUA)--China has exported tobacco and cigarettes worth more than 115 million U.S. dollars between January and November this year to 20 countries, exceeding targets by 28 percent. "The boom is due to the high quality of the products," said Ma Erchi, general manager of China's Tobacco Export and Import Corporation, in an interview with XINHUA today. "The cigarettes are low in tar." In addition, improved packing helped heighten sales. "Foreign buyers appreciate that our packaging meets international standards," Ma added. According to Ma, most of the sales are to Britain, Czechoslovakia, France, Federal Republic of Germany, Romania, and the United States. [Text] [Beijing XINHUA in English 0257 GMT 16 Dec 86] /8309

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## TRANSPORTATION

### LONGHAI-LANXIN ECONOMIC STUDIES GROUP SET UP

HK231528 Beijing RENMIN RIBAO in Chinese 19 Dec 86 p 1

[Report by reporter Meng Xian (1322 6007 1344): "Over 40 Cities, Prefectures and Autonomous Prefectures Along the Longhai-Lanxin Railroad Establish Economic Ties to Jointly Build the Modern 'Silk Road'; the Longhai-Lanxin Economic Studies Promotion Association Is Set Up"]

[Text] Provinces and cities along the Longhai-Lanxin Railroad [Lanzhou-Lianyungang and Lanzhou-Xinjiang Railroad] are developing in the direction of establishing lateral economic ties. Today, responsible people from 40 cities, prefectures and autonomous prefectures in 7 provinces (regions), as well as 200-odd experts, gathered at the ancient city of Xian and marked the founding of the Longhai-Lanxin Economic Studies Promotion Association. Taking the railroad as an important link in lateral economic ties, they began jointly building the great undertaking of the modern "silk road."

Linking Lianyungang in the east and Ili, Xinjiang, in the west, the Longhai-Lanxin railroad measures over 4,200 kilometers in length, spanning 10 provinces (regions) in the economic zones of east, central and west China. The railroad runs across China's major bases for oil, coal, mines, grain, cotton, timber and animal husbandry production. Large- and medium-sized cities, as well as economic centers, along the railroad are linked by it, forming an economic belt. At the same time, it extends in all directions as there are eight north-south railroads connected to it. Following completion of the project linking Lanxin Railroad to Xitu Railroad in the Soviet Union, one may start one's trip from Lianyungang and arrive at Rotterdam, Holland, after crossing both Asia and Europe, thereby linking the Pacific Ocean, the Atlantic Ocean and the Indian Ocean. Economist Tong Dalin called it the world's longest "Eurasia land bridge" which is open throughout the year.

Over the years, in the wake of economic structural reform and the development of commodity economy, provinces (regions) and cities along the Longhai-Lanxin railroad wanted to break down the separation of vertical and horizontal ties and the blockades between different regions, in order to strengthen lateral economic links and speed up the pace of opening up. Over the past year and more, the provinces (regions), prefectures, cities and autonomous prefectures in this zone have, under the instructions and support of the State Council departments concerned, eventually reached agreement on founding the Longhai-Lanxin Economic Studies Promotion Association. This was achieved after repeated discussions, investigations, and proof on strategic issues, as well as issues concerning the zone as a whole and of policy nature in terms of the zone's development.

At today's inauguration session and development strategy seminar of the Longhai-Lanxin economic studies promotion association, the participating comrades held that because of historical, natural, and social reasons, the level of economic development in this zone was, generally speaking, inferior to that of the Changjiang basin. It was basically a developing zone in which the economic development of various localities was not balanced. There was great potential to complement each other in various key elements of the commodity economy. By establishing lateral economic ties in this zone, one could use the strong points of others to offset one's weaknesses, and develop in a complementary way, thereby producing an organic combine of various key elements in the whole economic zone. This would also help pool together the material and financial resources, as well as manpower, of this zone for comprehensive development, opening up to the outside in an integrated way, and rapidly replacing the closed-type economy with an open one. This would also promote the zone's economic prosperity.

The participating comrades will discuss the zone's strategy of economic development, as well as the direction, contents and ways of developing lateral economic ties. They will also form a leading body for the Longhai-Lanxin Economic Studies Promotion Association, and formulate plans for next year's joint investigations, special investigations and studies, talks on cooperation, and information exchanges.

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CSO: 4006/255

## TRANSPORTATION

### CAAC IMPROVES FLIGHT SAFETY, EFFICIENCY

OW160508 Beijing XINHUA Domestic Service in Chinese 0804 GMT 15 Dec 86

[By reporter Zhang Jinsheng]

[Text] Beijing, 15 Dec (XINHUA)--The Civil Aviation Administration of China (CAAC) has improved flight safety and achieved a breakthrough in operating its flights on schedule as a result of technical training for its staff and workers and construction of airport basic facilities accomplished since the beginning of this year.

To cope with the large increase in new aircraft and equipment, the CAAC has attached great importance to the training of personnel and has conducted various kinds of technical training and evaluation on both ground and air crew members to ensure flight safety. Since the beginning of this year, it has repeatedly offered on-the-job training to air traffic control personnel, as well as various classes on the functions of new types of aircraft and classes for brushing up English language skills, thereby raising the technical and professional standards of large numbers of flight and ground personnel. Based on the professional training, the CAAC has introduced a license control system, according to which pilots, copilots, engineers, and air traffic control personnel must pass an examination and receive a license before they can assume their posts. Currently, an overall evaluation is being carried out among frontline air traffic control and flight information personnel.

To cope with the continuous increase of flights and to improve air traffic control, the CAAC has also technologically upgraded the control towers by installing advanced radar control equipment in the airports at Dalian, Xian, Wuhan, Zhengzhou, Chengdu, Kunming, Nanning, Nanchang, Guiyang, and Xiamen. To enable flights to operate on schedule under the minimum required weather conditions, the CAAC has installed a landing meter system in 14 airports, including Beijing, Shanghai, Guangzhou, Hangzhou, Wuhan, Xiamen, and Xian, which, to a certain degree, has improved flight safety and enabled flights to operate on schedule.

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CSO: 4006/255

## TRANSPORTATION

### BRIEFS

LONGHAI-LANXIN ECONOMIC STUDIES SEMINAR--The 3-day meeting to establish the Longhai-Lanxin Economic Studies Promotion Association and the seminar on development strategy concluded yesterday. During the meeting, the participants unanimously approved the charter of the association. According to the charter, Ma Hong, Tong Dalin, and responsible comrades of six provinces and one autonomous region are appointed honorary directors of the association. Dong Jichang is appointed director and Zhang Ze, Li Boxi, and others are named advisers. The participants explored the questions of how to set up on a trial basis joint companies with a variety of production operations, consolidate and develop the small economic zones already set up or to be set up in the future, organize foreign trade centers, set up a three-dimensional land, water, and air transport system, and make full use of the eastern and western ports to develop export production for earning foreign exchange. The representatives also proposed the establishment of a conference of mayors and prefectural commissioners in areas along the Longhai and Lanxin railroad, to gradually launch and firm up these projects. [Text] [Xian Shaanxi Provincial Service in Mandarin 0030 GMT 21 Dec 86] /8309

CSO: 4006/255

## CHINESE MEDIA ON FOREIGN ECONOMIES

### LIU GUOGUANG ON FRANCE'S NATIONALIZED ECONOMY

Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 6, 23 Jun 86 pp 14-18

[Article by Liu Guoguang [0491 0948 0342], Yu Zuyao [0060 4371 1031] and Zhang Shuguang [1728 2562 0342]: "Reflections on Returning from an Inspection of France's Nationalized Economy"]

[Text] In January of this year we were invited to France to study management problems in France's nationalized economy.

#### French Nationalization and Nationalized Enterprises

France's nationalized economy has a long history and is very broad, having gone through three large-scale nationalization movements. The first was from 1936 to 1937, during the Popular Front government; in order to respond to imminent war, the railroads were first nationalized, while at the same time strong measures were taken to nationalize more than 10 munitions enterprises including the Giat Munitions Factory and the Renault Tank Factory. The second was from 1945 to 1946 under de Gaulle's provisional government; in order to restore and reconstruct the French economy, the government issued a series of nationalization decrees setting up the French Electric Power Co, the French Coal Gas Co, and the French Coal Mining Co, and nationalizing the Renault Automobile Co. At the same time, five banks, including the Bank of France and the Credit Lyonnais, and 34 insurance companies were nationalized. Subsequently, nationalization continued to develop, and there was a steady increase in nationalized enterprises. By May 1981, there were 84 nationalized enterprises and 49 mixed public-private enterprises in all. The third wave of nationalizations came in 1982 after the Socialist Party's Francois Mitterrand came to power; nationalization became an important aspect of the restructuring of French society and a key means of implementing "socialism." The most massive nationalizations in French history were carried out. According to the nationalization law passed by the National Assembly on 11 February 1982, the following all had their capital directly or indirectly nationalized: 5 industrial groups, including the General Electric Power Co, 2 large financial companies, and 36 banks with more than 1 billion francs on deposit as of 2 January 1981; at the same time, through equity financing by the state, majority shares in such companies as Dassault-Breguet Aviation and Matras Munitions were controlled. In addition,

shares in some foreign companies were purchased through negotiations. To date, the proportions accounted for by nationalized enterprises in the entire French economy are as follows: 21 percent of turnover, 23 percent of staff and workers, 28 percent of value added, 30 percent of export volume, 40 percent of investments, and 53 percent of fixed assets. Of these amounts, in industry turnover accounts for 42 percent, and investments accounts for 30 to 32 percent. Deposits and loans of nationalized banks account for 84.6 and 89.8 percent, respectively, of total registered deposits and loans, and 74 and 75 percent of total deposits and loans in the country's banking system.

The characteristics of French nationalized enterprises are as follows:

1. Most are large-scale enterprises. Of the enterprises that are self-capitalized, 15 of France's 25 largest industrial and commercial companies are nationalized. Based on number of staff and workers, of the 20 largest enterprises 17 are nationalized. Based on the total number of companies, of the 127 nationalized firms, more than 70 are large-scale enterprises.
2. Although there are not many nationalized enterprises, there are many companies controlled by them, with many nationalized enterprises being group companies and holding companies. At present there are more than 3,000 companies controlled by more than 200 nationalized enterprises.
3. They cover a broad range of operations. Not only have the nationalized enterprises achieved a monopolistic position in the banking, finance, and basic utilities sectors, they have expanded broadly into the industrial, commercial and foreign-trade sectors. At the same time, all the nationalized enterprises concentrate in one field and are diversified and comprehensive.
4. There are many transnational corporations. They cover a broad spectrum of international activities, and the large nationalized enterprises have generally established branches abroad. The foreign turnover figures and numbers of staff and workers of many nationalized industrial groups account for a very large share of the total, in some cases more than half.

French nationalized enterprises are divided based on their sector into basic utilities, basic industry, general manufacturing, and banking and finance; based on their relationship to the market place, they are divided into two categories: competitive and noncompetitive. Nationalized enterprises in the noncompetitive sector basically monopolize all or much of the activity in that field; the nationalized enterprises in basic utilities and basic industry are of this type. Nationalized enterprises in general manufacturing and banking and finance actively engage in foreign and domestic competition according to the laws of the market and are, therefore, referred to as the competitive sector.



## Approaches and Experiences Suitable for Reference

Our on-site examination of the management problems of France's nationalized enterprises enabled us to achieve one overall impression, which is that France's nationalized economy is a state-monopoly capitalist economy; in the management system there still persist some manifestations of enterprises eating out of the state's "big rice pot," and they are now facing conflicts between employment and efficiency. Some nationalized enterprises, such as Renault, have fallen into the predicament of suffering losses year after year. We must, therefore, not copy the management system of the French nationalized enterprises. However, in terms of the general rules of socialized production and a commodity economy, there are several approaches and methods used by France in managing nationalized enterprises that are valuable as references and lessons in studying the problems of China's economic system reform and management of nationalized enterprises.

### I. The share System Is a Feasible Means of Achieving a Separation of Ownership and Administrative Authority

The resolution on economic system reform passed by the 3d Plenum of the 12th CPC Central Committee clearly stated the principle of separating government and enterprise functions and duties, and ownership and administrative authority; it pointed out the direction for reform of the management system for nationalized enterprises. However, an appropriate means of actually realizing this principle must still be found.

France's nationalized enterprises all employ the share system of management and administration. The state is the shareholder in a nationalized enterprise, and by appointing and removing the chairman of the board, appointing delegates to sit on the board, and negotiating and signing plan contracts with the enterprise, it controls its orientation and influences its operational program; the state does not, however, interfere in the enterprise's everyday activities and allows the enterprise autonomous management and administration. In this way, the relationship between the state and the nationalized enterprise is one of shareholders and administrators. On the one hand, the state maintains its right of ownership of the enterprise, and on the other, the enterprise also has powers of autonomous management and independent operation, thereby separating owners from operators and ownership from administrative authority. It would seem that the share system is a feasible and effective means of achieving the separation of government and enterprise and of ownership and administrative authority.

Some of France's experiences in implementing the share system are worth noting. For example, for the number of shares held by the state, France has adopted three approaches. The first involves controlling all shares; i.e., the state directly or indirectly controls 100 percent of the shares. The second is majority shareholding; i.e., the state controls more than 51 percent of the shares. The third is minority shareholding; i.e., the state controls less than 51 percent. In terms of the scope of shares held, the French government

generally controls only the shares of the head office or parent company, and not those of branches or subsidiaries, the latter being controlled directly by the head office or parent company, the number of shares being controlled varying here as well. As for the form of shareholding, France has adopted two forms, direct and indirect. Direct shareholding is the holding of shares by the Minister of Finance on behalf of the state; indirect shareholding is the holding of shares by a nationalized bank or financial institution. For example, the state directly controls 75 percent of the shares in the five large industrial groups nationalized in 1982; the remaining 25 percent are controlled by the "French Industrial Participation Co." This company is a nationalized financial institution, 51 percent of whose shares are directly controlled by the state, the remaining 49 percent being held by nationalized banks. In the trading of stocks, state shares in French nationalized enterprises cannot be freely bought and sold on the Bourse; changes in their status must follow a set legal procedure. However, privately held shares in nationalized companies may be freely bought and sold. In short, what is used is a diversified approach rather than a monolithic one. As explained by French economists, controlling 33 percent of the stock conveys veto power, and 21-percent control also makes it possible to control the enterprise. As for shareholders, there are even more varied types, including appropriate state ministries, local governments, financial institutions, collective bodies and individuals.

## II. Plan Contracts Are an Important Means of Coordinating State and Enterprise Goals

The behavior of enterprises and of the state is driven and dominated by different interests and motives. Conflicts frequently arise between the goals targeted by the enterprise itself and the social goals that the state wishes to achieve. Therefore, how to coordinate enterprise and state goals while implementing guiding plans is a question that must be investigated.

In this area, France's experience in implementing plan contracts may serve as reference. France has set and implemented nine economic, social and cultural development plans, all of which have been medium- and long-term development plans and programs. Although approved and passed by the National Assembly, they are only in the nature of guidelines for the enterprises, not sent down to each enterprise for thorough implementation as ordered plans. They are carried out by the signing of a plan contract, with the enterprise voluntarily discussing and negotiating with the state. There are two principles determining whether a plan contract is signed. One is whether the enterprise has any new development projects; if not, only everyday management is needed, there being no need to sign a specialized plan contract. The other is whether it is a key strategic industry; if it is a nonstrategic industry, no strategic selection need be made, and the state needs only follow standard procedure, achieving management and control by its participation in the board of directors without signing plan contracts. But for such strategic industries as information, aerospace, and atomic energy, a strategic selection must be made, and realizing that strategy requires state subsidies. For enterprises

of this type, a contract must be negotiated and signed. The term of the plan contract is generally 3 years; specific content and clauses vary, but generally speaking the contract includes two aspects: first, the enterprise's developmental orientation and its obligations, and, second, the state's requirements and obligations. The procedure for drafting and signing the contract is as follows: first, the enterprise puts forth its own development plan, which serves as the basis for negotiations. Then, with the appropriate minister or his representative presiding, the representatives of the state (including the ministry concerned, the Finance Ministry, and the Planning Office) and those of the enterprise negotiate the drafting of the contract; together they analyze and forecast the external conditions of and changes in the enterprise's management, specifically discussing the relationship between state and enterprise. If discussions lead to the enterprise agreeing to follow the state's demands in coördinating and integrating its own development plans and goals with those of the state, implementing the state's priority development projects, fulfilling the state's development mission and carrying out the state's social policy, and the state's agreeing to provide the enterprise with the corresponding financial assistance and other support, then both parties (represented by the appropriate minister and the enterprise's chairman of the board or general manager) sign a plan contract clearly setting forth the requirements and obligations of each party.

Annual management contracts are also drawn up between the head office and its branches and production management units to coordinate the relationship between them. The French plan contract system is not yet complete; for example, the plan contracts have no formal legal force and are in fact only a type of agreement. If the state violates a clause of the contract, the enterprise has no recourse and cannot levy sanctions. Drawing up the contract often drags on through 2 years of negotiations. However, the plan contract is an important means of combining and coordinating enterprise development and state plans, enterprise goals and state goals. By accepting and implementing the state's development plans and goals, the enterprise can obtain state financial subsidies and better realize its own goals and interests. Thus, the enterprise accepts the state's plans to serve its own interests; by realizing state goals it achieves its own benefits. Implementing the state's plans is then no longer a burden forced on the enterprise from the outside but rather the enterprise's own conscious action. This means that the state does not need to interfere directly in the enterprise's management, and it achieves the goals of effectively controlling enterprise development.

### III. Enterprise Organization and State Management of Enterprises

Although each of the multitude of China's nationalized enterprises has a "mother-in-law," the lack of horizontal relationships means that they are basically scattered and disorganized. The state must deal with each enterprise separately. This situation not only makes it difficult for the state to exercise direct management and control, it also makes indirect management and control difficult. Although we have repeatedly undertaken specialized cooperation and association, we have not had much success, and many problems

remain. The enterprise groups and colonies, as well as intersectoral and interregional horizontal associations, that have appeared recently have revealed a new developmental orientation, but they await further study.

The French government's management of nationalized enterprises is not only indirect, it is also hierarchical. This hierarchy is not administrative but rather economic. Nationalizations in France are basically limited to head offices and parent companies, and these are all large enterprise groups holding critical positions. State management and control is also limited to this level. The state generally does not interfere with branches or subsidiaries, which are managed and controlled by the head office or parent company. Thus the number of state-managed companies is quite limited; the total number of nationalized enterprises in all trades and sectors does not exceed around 200; of these, only 40 or 50 are direct producers; the state deals with several tens or some 100 large companies and enterprises, thus making it fairly easy to manage them. It is possible to avoid major mistakes, whether in selecting the chairman of the board and constituting the board of directors, or in negotiating and signing the plan contract. In the words of French officials, this enables France to avoid a catastrophe. But enterprises subject to indirect state control number not in the hundreds but in the thousands.

China has now adopted an approach of contracts, leasing, and sales regarding small nationalized enterprises, which to a certain extent has mitigated problems of excessive centralization and stifling control. Controls over medium-size enterprises could also be relaxed, while at the same time organizing them into enterprise groups or colonies, with state control and management limited to the large enterprise or company at the head of the group or colony. This type of management and control also would not interfere directly in enterprise operations and, by experimenting with the share system described above, the separation of government and enterprise and of ownership and administrative authority could be implemented, to allow enterprises to participate actively in market competition. France still applies different degrees of management and control to different types of nationalized enterprises according to their participation in market competition. For nationalized enterprises in the competitive sector, the state exercises no control other than the aforementioned appointing and removal of the chairman of the board, participation in the board, negotiating and signing plan contracts, and auditing oversight. Such enterprises are basically in the same position as private enterprises, with the same form of operation, and with the enterprise having complete autonomy. For nationalized enterprises in the noncompetitive sector, the state not only holds authority to approve and set prices but most often also stipulates a number of social missions for the enterprise; enterprise operational and management authority is relatively reduced, limited to management authority in such areas as personnel, labor, finances, and organization, with a greater degree of control by the state and the responsible ministry. For example, freight tariffs for the state railroad company are set by the enterprise, but the setting or changing of passenger ticket prices must be approved by the state. However, many people in France stressed

repeatedly that an enterprise's efficiency is not determined by whether it is nationalized but by its competitiveness and ability to adapt and react to the market; as no type of monopoly can be absolute, monopolistic enterprises and sectors must also make every effort to inject competitive factors and strengthen their ability to adapt to changes in the market.

#### IV. Nationalized Wages and Bonuses

1. In French nationalized enterprises, the principal means of mobilizing staff and worker enthusiasm is advancement based on performance. The wages of workers and ordinary management personnel generally follow a wage schedule set through joint negotiations with trade associations and trade workers' unions; job descriptions and salary grades are raised every 2 years. Wages of Staff and workers are not closely linked to the enterprise's operating results (profits). Within the French government there is a commission that specifically handles wage increases in nationalized enterprises. Each year it agrees on a margin of wage increase with the unions and trade associations according to inflation and other factors; this is sent down to the nationalized enterprises for their implementation according to their own operating conditions. Well-run enterprises showing profits may slightly exceed the margins of increase sent down by the state, but this must be negotiated with the responsible ministry. Poorly run enterprises showing losses may not go as high as the set margin of increase. There are not many bonuses; these are limited to profitmaking enterprises and are most often distributed on an egalitarian basis, inasmuch as the unions do not approve giving out differentiated bonuses, believing that this would damage worker unity. Workers in nationalized enterprises have assured jobs, and many enterprises are making profits and have promising futures. For this reason, though there are not many bonuses in nationalized enterprises, regular promotions based on performance attract and encourage workers. In private enterprises, there are more categories of raises and bonuses.

2. In French nationalized enterprises, the wages and bonuses of management personnel are set by higher authorities. Wages and bonuses in the head office are set by the responsible department; those in the branches are set by the head office. The enthusiasm of management personnel is not primarily focused on increases in their own wages and bonuses, which account for only a secondary and not very large part of their total income. The main source of their income is stock dividends. Moreover, the focus of their concern is usually not wage income but the advancement of their individual social status. If the enterprise is well run, not only will they earn more stock dividends, but their individual status will be advanced.

In the past we went for a long time without changing wages, relying on bonuses to encourage and mobilize the enthusiasm of the staff and workers. This approach seems fraught with abuses. Bonuses have in fact become a second wage and are for the most part given out on an egalitarian basis, creating rampant egalitarianism. In some cases, gaps between bonus levels are excessive, enabling a few cadres to line their pockets, creating a new

irrational situation, and affecting worker unity. In some cases, staff and workers continue to earn bonuses even though the enterprises are suffering losses, destroying enterprise management and putting wages and bonuses out of control. It would seem that reform of the income-distribution system should begin with reform of the wage system itself, changing from long-frozen wages to regular advances based on performance, according to rules and regulations, thereby encouraging staff and workers to work harder and constantly advance. As regards directly and closely linking staff and worker wages to the enterprises's operating results (profits), there are many drawbacks, and this requires further study, since in many cases profits are not closely related to staff and worker labor and enterprise operations. Who shall determine the wages and bonuses of enterprise management and plant directors, and how, is also a problem needing study.

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CSO: 4006/121

## CHINESE MEDIA ON FOREIGN ECONOMIES

### CHINESE, HUNGARIAN REFORMS COMPARED

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[Article by Li Shuxi [2621 2885 0823]: "Reform Is a Global Phenomenon"]

[Text] It was a much-looked-forward-to reunion: One evening in early fall, Luo Yuanzheng [5012 0337 6927], the famous economist, and Bela Csikos-Nagy, a well-known Hungarian economist, clasped hands tightly in Beijing.

In October 1984, Professor Luo Yuanzheng, chairman of the China Federation of Economic Organizations and a director of the International Economics Association, met Professor Csikos-Nagy at the East-West economic relations conference in Budapest. Drawn together by a common topic--socialist economic reform--and many shared viewpoints, they became friends. After the conference, Professor Luo Yuanzheng made a study tour of Hungary at the invitation of Professor Csikos-Nagy. Back in China, he invited the Hungarian to come to China for a 2 to 3-week visit on behalf of the China Federation of Economic Organizations. In August 1986, Prof Csikos-Nagy visited China as arranged by the World Bank. One of his major objectives was to meet with Professor Luo Yuanzheng and other colleagues in the field.

The two old friends conversed cordially in English. It was a conversation between two economists with diverse experiences. Luo Yuanzheng graduated from college with a bachelor's degree in economics in 1947. He met and befriended Feng Lida [7458 3810 6671], daughter of General Feng Yuxiang [7458 3768 4382], in the student movement. After General Feng Yuxiang made his anti-Jiang Jieshi declaration in the U.S., Professor Luo Yuanzheng decided to give up his studies to be the general's interpreter and secretary, remaining with him until the general was killed in the Black Sea. After liberation, Luo Yuanzheng furthered his studies in the Soviet Union and became the first Chinese graduate student to earn a sub-doctorate in that country after 1949. His experiences in the U.S. and Soviet Union and his understanding of economic issues made him an expert in global economic strategy. He was also deputy director of the International Economics Institute, Chinese Academy of Social Sciences. Currently he serves as part-time professor at several universities, including Beijing, and is a member of the Chinese People's Political Consultative Conference. Prof Csikos-Nagy served as chairman of the Hungarian State Office for Prices and Materials for over 2 decades from 1956 through 1984. At present he is chairman of the Hungarian Economics Association and

chairman of the State Industrial Policy Commission. He has been involved in the entire process of economic reform in Hungary and has written extensively. He is a member of the executive board of the International Economics Association and lectures part-time at a number of universities in the U.S., such as Harvard, Columbia, and Philadelphia.

Since they got acquainted through reform, their discussion naturally focused on reform. As they talked, they also answered reporters' questions

To Reform and Open to the Outside World Is To Understand Socialism Anew;  
Chinese Reform Has Universal Significance

Luo Yuanzheng: Essentially what China has done in recent years is to understand socialist economics anew through reform and opening to the outside world.

Csikos-Nagy: That is correct. To open to the outside world is to reform, and in order to reform, you must open up.

Luo Yuanzheng: Human economic activities advance as man progressively opens himself to the outside world, which is an inevitable trend in history. In a primitive society, economic activities were basically limited to within a clan or tribe, while a feudal economy was confined to the manor of a feudal lord. By freeing itself from the bondage of feudalism, capitalism in effect was responding to the demand of opening itself to the outside world. Socialism is a higher form of development than capitalism. From the perspective of historical materialism, therefore, socialism should go further than capitalism in pursuing openness. As history has proved, to be closed is to be ignorant, while to be open is to be enlightened; to be isolated is to regress, while to be open is to progress. Moreover, modern economic life has become globalized. If we do not open to the outside, we will not be able to find our place in the world.

Csikos-Nagy: There were three landmarks in Hungary's reform: 1957, 1968 and 1980. In 1957, we mainly abolished the mandatory sale of agricultural products to the government. In 1968, we abolished command planning and introduced market mechanisms to regulate the economy. In 1980, we lifted price control on 80 percent of the commodities in order to adapt to the international division of labor. Looking back at the early days of reform, we see there was a good deal of debate and many different opinions, as is the case in China. Some people worried that opening to the outside world lead to chaos and damage the nation's socialist image. In fact, a vitalized economy, improved efficiency, and an elevated status for the nation--isn't that exactly the kind of image socialism should have? Without reform, a socialist economy would be doomed. It is in the direction of a socialist market economy that Hungary reformed itself.

Reporter: Mr Csikos-Nagy, you had some idea about China's reform before you came to this country. Now that you are here, what are your impressions and assessment of China's economic reform?



Csikos-Nagy: What I am going to say about my impressions is not necessarily accurate. China is a big country. It goes about reform based on its own circumstances. I am pleased to see that our reform moves in the same direction. An important lesson is this: Hungary is a small nation, and when it first launched reform, it might have been regarded as a limited phenomenon, a special case. Now that a big country like China goes in for reform, it tells people that it is inevitable, not an isolated case, for a socialist economy to reform and open to the outside world. It is a universal principle of socialist economics. China's reform is a support for reform in my nation. It is a profound revelation to people trying to understand the socialist road. So China's reform has international significance.

#### China and Hungary Compared: Same Direction, Different Circumstances

Reporter: Can you say something about the differences and similarities between reforms in China and Hungary?

Csikos-Nagy: Reform follows relaxation. Hungary relaxed its agricultural policy after 1957, which spurred the peasants' initiative. It was then that we began to wonder whether or not we could apply the successful experience in agricultural reform to industry and give autonomy to the latter...

Luo Yuanzheng: That is somewhat similar to the situation in China. Here too we first carried out in agriculture a system of contract responsibility linked to output. It was the success of this reform which gave impetus to industrial and urban reforms... Apparently, we both pursued the goal of switching from agricultural to industrial reform, the latter meaning enterprise autonomy.

Csikos-Nagy: The decentralization of autonomy to enterprises goes through a process. Autonomy is very important. Without full enterprise autonomy, we cannot have reasonable prices.

Certainly, pricing is an extremely complicated matter. In general, people feel a strong aversion to inflation and price increases, so we must combine a certain measure of price stability with price flexibility. At the beginning of price reform, consumer prices remained basically the same, while producer prices were gradually brought closer to consumer prices. In the long run, of course, consumer prices must be changed too. Today we have three different types of prices: 1) fixed prices: set universally by the state price agency after consulting the departments concerned; 2) restricted prices: the state price agency determines the list price of a product and its floating range so that factories can price their products flexibly; and 3) free prices: to be determined by the market. Starting in 1980, the prices of 80 percent of the products have been set by the market. I am glad to see that some of your price management measures are similar to ours.

Luo Yuanzheng: Needless to say, there are also major differences between China and Hungary. The circumstances here are relatively more complex. Reform takes place gradually, fanning out from experimental test sites. For example, China has set up special economic zones [SEZ's] and economic development zones where special policies are implemented in order to gain experience. So far

the SEZ's have demonstrated that they have taken "the first step" toward the world. They have become the bridge bringing together China and the world.

Csikos-Nagy: Yes, the situation in China is much more complex than that in Hungary. In Hungary circumstances are more straightforward. As it exports almost half of its products, Hungary pays a lot of attention to the international market. China itself is a huge market, so the tasks of domestic management, control, and coordination are vastly more intricate. If it neglects its own market, it stands to lose. Moreover, China's township and town enterprises have made encouraging progress in recent years. By providing such enterprises with funds, qualified personnel, and information, you will do much to enhance the nation's economic vitality.

Also--forgive my bluntness--reform is a gradual process; we must not be impatient. The Economic Restructuring Commission is talking about introducing mixed prices. Would it not be a little too hasty to introduce free prices in 5 years? Hungary is currently drawing up a bankruptcy law--20 years after it has embarked on the road of reform. Yet you are doing that right now. (Implicitly, China has moved a little too fast.) Of course, we cannot but totally open to the outside world after some practice.

Luo Yuanzheng: In a nutshell, reform in both Hungary and China has answered a key question: socialism must take the reform road.

Csikos-Nagy: We share many similarities today, and I believe there will be even more similarities the further we move ahead.

#### Economic Reform Requires Political Reform; There is No Alternative But To Eradicate Bureaucratism

Luo Yuanzheng: Economic reform cannot stand alone. The more thoroughgoing reform becomes, the more clearly maladies in the political system are exposed. China's existing management system is rather conservative and over-centralized. The chain of command is too long. There are too few channels, too many barriers, and too much compartmentalization. Nothing gets done. Only by adjusting and reforming the political system can the superiority of socialism and the party's strength be demonstrated. This is also in compliance with the four cardinal principles.

Csikos-Nagy: We have not yet used the concept of "political reform." Nor have we touched upon the Comecon. I must say this: from the standpoint of economics, it does not do much good simply discussing the relations between planning and the market. This is because the two basically are not mutually exclusive. What we should look at is bureaucratism. What tools of management should you use, bureaucratic commands or economic mechanisms? Of course, the market cannot be perfect. But bureaucratism is disagreeable wherever it rears its head. As far as eradicating bureaucratism is concerned, we have no choice.

I advocate democratization. Without linking up with democratization, economic reform cannot succeed. As I see it, democratization occurs at two levels: 1)

parliamentary democracy, where national leaders are elected, and 2) enterprise autonomy, where factory managers and directors are elected. If the economy is to be open, society should also be open and democratic. Society is built by the masses; it is not for an individual to dictate its mold. In short, political openness will be a tremendous boost to economic reform.

Reporter: Thank you very much for your talk. Just one more question: Both you and Mr. Luo Yuanzheng are directors of the International Economics Association. In your opinion, what should the association do for reform?

Csikos-Nagy: The mission of the International Economics Association is to help countries exchange experience in economic development so that developing nations can avoid detours. In view of the achievements and colossal significance of China's reforms, I suggest that a seminar be held in this country in the future, say in 1988. That would be very meaningful.

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